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MANCHESTER
CITY COUNCIL

Thursday, 28 February 2019

Dear Councillor / Honorary Alderman,

Meeting of the Council – Friday, 8th March, 2019

You are summoned to attend a meeting of the Council which will be held at 10.00 am on Friday, 8th March, 2019, in the Council Chamber, Level 2, Town Hall Extension, Manchester.

1. The Lord Mayor's Announcements and Special Business

2. Interests

3. Minutes 5 - 17

To submit for approval and signature the minutes of the meeting of Council held on 30 January 2019

4. The Council's Revenue and Capital Budget 2019/20 - 2023/24

4a. Proceedings of the Art Galleries Committee on 13 February 2019 19 - 20

To approve the proceedings of the Art Galleries Committee on 13 February 2019 in relation to the Art Galleries budget for 2019/20.

4b. Part proceedings of the Executive on 13 February 2019 21 - 42

To approve the part proceedings of the Executive on 13 February 2019 which contain details of the following:

- The Councils Budget 2019/20 covering report;
- Medium Term Financial Plan 2019/20 - 2021/22;
- Capital Strategy and Budget 2019/20 to 2023/24;
- Corporate Core Business Plan 2019/20;
- Neighbourhoods Directorate Business Planning 2019/20;
- Children's Services and Education Business Planning 2019/20;
- Dedicated Schools Grant 2019/20;
- Strategic Development Business Planning 2019/20;
- Housing Revenue Account 2019/20 to 2021/22;
- Manchester Health and Care Commissioning - Adult Social Care Business Plan and Pooled Budget contribution 2019/20;
- Homelessness Business Planning 2019/20; and
- Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2019/20

(Members of the Council need to take account of the above reports which were considered by the Executive on 13 February

2019. The Council Budget Paper pack is available on the Council's website (link address below) and paper copy – on request)

Website link address: https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=135&MId=347&Ver=4

Yours faithfully,

Joanne Roney OBE
Chief Executive

Information about the Council

The Council is composed of 96 councillors with one third elected three years in four. Councillors are democratically accountable to residents of their ward. Their overriding duty is to the whole community, but they have a special duty to their constituents, including those who did not vote for them.

Six individuals with previous long service as councillors of the city have been appointed Honorary Aldermen of the City of Manchester and are entitled to attend every Council meeting. They do not however have a vote.

All councillors meet together as the Council under the chairship of the Lord Mayor of Manchester. There are seven meetings of the Council in each municipal year and they are open to the public. Here councillors decide the Council's overall strategic policies and set the budget each year.

Agenda, reports and minutes of all Council meetings can be found on the Council's website www.manchester.gov.uk

Members of the Council

Councillors:-

Hitchen (Chair), Akbar, Ahmed Ali, Azra Ali, Nasrin Ali, Sameem Ali, Shaukat Ali, Alijah, Andrews, Appleby, Barrett, Battle, Bridges, Chohan (Deputy Chair), Clay, Collins, Connolly, Cooley, Craig, Curley, M Dar, Dar, Davies, Douglas, Ellison, Evans, Farrell, Flanagan, Fletcher-Hackwood, Green, Grimshaw, Hacking, Harland, Hassan, Hewitson, Holt, Hughes, Igbon, Ilyas, Jeavons, Johns, S Judge, T Judge, Kamal, Karney, Kilpatrick, Kirkpatrick, Lanchbury, Leech, Leese, J Lovecy, Ludford, Lynch, Lyons, McHale, Midgley, Madeleine Monaghan, Mary Monaghan, Moore, N Murphy, S Murphy, Newman, Noor, O'Neil, Ollerhead, Paul, B Priest, H Priest, Rahman, Raikes, Rawlins, Rawson, Razaq, Reeves, Reid, Riasat, Richards, Rowles, Russell, Sadler, M Sharif Mahamed, Sheikh, Shilton Godwin, A Simcock, K Simcock, Smitheman, Stogia, Stone, Strong, Taylor, Watson, Wheeler, White, Wills, Wilson and Wright

Honorary Aldermen of the City of Manchester –
Gordon Conquest, William Egerton JP, Andrew Fender, Audrey Jones JP, Paul Murphy OBE, Nilofar Siddiqi, John Smith and Keith Whitmore.

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

Andrew Woods
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This agenda was issued on **Thursday, 28 February 2019** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

Council

Minutes of the meeting on 30 January 2019

Present: The Right Worshipful the Lord Mayor Councillor June Hitchen – in the Chair

Councillors –
Akbar, Ahmed Ali, Azra Ali, Ali N, Samaan Ali, Shaukat Ali, Andrews, Barrett, Bridges, Chohan, Clay, Collins, Connolly, Craig, Curley, M Dar, Y Dar, Davies, Douglas, Ellison, Evans, Farrell, Flanagan, Fletcher-Hackwood, Green, Grimshaw, Hacking, Harland, Hassan, Hewitson, Holt, Hughes, Igbon, Ilyas, Jeavons, Johns, Kamal, Karney, Kilpatrick, Kirkpatrick, Lanchbury, Leech, Leese, Lovecy, Ludford, Lyons, McHale, Midgley, Mary Monaghan, Moore, N. Murphy, S Murphy, Newman, Noor, Ollerhead, Paul, B Priest, H Priest, Rahman, Raikes, Rawlins, Rawson, Reeves, Reid, Riasat, Richards, Russell, Sadler, Sharif Mahamed, Shilton Godwin, A Simcock, K Simcock, Stone, Strong, Watson, Wheeler, White, Wills, Wilson and Wright

Honorary Aldermen of the City of Manchester –
Mr Andrew Fender and Mrs Nilofar Siddiqi

CC/19/01 Motion without notice – Change of Order of Business

The Leader of the Council moved a motion without notice to change the order of the Council business (Council Procedure Rule 19.1(c)), to allow the Notices of Motion on: “Making HIV History”; and “Transport Poverty” to be brought forward on the agenda to be considered as the items before the Proceedings of the Executive.

Resolution

The motion was put to Council and voted on, and the Lord Mayor declared that it was carried.

Decision

That the order of business be changed and the two Notices of Motion: Making HIV History; and Transport Poverty be brought forward for consideration before the proceedings of the Executive.

CC/19/02 Motion without notice – Withdrawal of Item of Business

The Leader of the Council moved a motion without notice (Council Procedure Rule 19.1(e)) to withdraw the Notice of Motion – “Unite Construction Charter” from the order of business. The Council was informed that an Executive decision had been made that the Unite Construction Charter will be signed and the City Solicitor had been advised accordingly.

Resolution

The motion was put to Council and voted on, and the Lord Mayor declared that it was carried.

Decision

That the order of business be changed and the Notices of Motion: Unite Construction Charter be withdrawn from the order of business.

CC/19/03 Lord Mayor's Special Business - Death of Former Councillors

The Lord Mayor invited those present to stand for a minute silence in memory of former Councillors Joseph Holly and Gary Betney who had served on the Council in 1982 and 1993 respectively.

CC/19/04 Lord Mayor's Special Business - Indonesian Tsunami and Brazil dam collapse

The Lord Mayor invited those present to stand for a minute silence in memory of the lives lost as result of the recent tragedies in Indonesia and Brazil.

CC/19/05 Lord Mayor's Special Business - EU China Partnership Award

The Lord Mayor accepted the EU China Partnership award from the Chief Executive on behalf of the City. The Lord Mayor reported that the European Union had selected Manchester and Wuhun as the best example of a European city working in partnership with a Chinese city. This award demonstrates how two cities can work together on projects relating to education, sport, trade and investment, culture, climate change and environmental protection, innovation healthcare and smart cities.

CC/19/06 Lord Mayor's Special Business - New Year's Honours List

The Lord Mayor informed the Council that she had written to the following who are either Mancunians or live or work in the city to congratulate them on the honour they have received in the New Year's Honours list:

Professor Fiona Devine CBE
Andrew Fender CBE
Dr Claire Stevens CBE
Mary Isherwood OBE
Colin Kelsey OBE
Superintendent Umer Khan OBE
Neil MacInnes OBE
Nasar Mahmood OBE
Aamer Naeem OBE

David Watson OBE
Paula Dunn MBE
Rabbi Warren Elf MBE
Robert Gallagher MBE
The Very Reverend Rogers Morgan Govender MBE
Mohammed Muazz Khan MBE
Jamilla Kossar MBE
Rachel Pilling MBE
Yusuf Tai MBE
Kate Brown BEM
Lewis Brown BEM
Teresa Lam BEM
Jon Morrey BEM
Jared Simpson BEM
Tracey Walsh BEM
Constable Michael Buckley QPM
Terence Finn QPM
Chief Inspector Dale Sexton QPM

CC/19/07 Presentations

The Lord Mayor reported that the presentation on Cuts to Education/ Schools Funding would not be taking place.

The Lord Mayor introduced the presentation on Children's Social Care and invited Councillor Bridges (Executive Member for Children's Services) and the Director of Children's Services to address the Council. The presentation was supported by: Paul Allen (Service Lead), Maria Simpkin, (Early Help Area Coordinator), Susan Butlin (Service Lead) and Carol Longsden (Early Help Area Coordinator).

CC/19/08 Minutes

Decision

To agree the minutes of the meeting of the Council held on 28 November 2019 as a correct record.

CC/19/09 Motion – Making HIV History

Motion proposed and seconded:

Greater Manchester has committed to becoming an 'HIV Fast Track City region', a bold ambition to end new transmissions of HIV by 2025 and to eradicate stigma and discrimination by 2020. Manchester City Council has a long history of fighting against HIV/AIDS discrimination and for access to well-funded services for people living with HIV/AIDS. There have been significant advances in treatment and science, meaning that if detected early HIV is no longer a death sentence but a manageable chronic condition. In Manchester we have the third highest rate of HIV in the country with over 5,000 people living with HIV in GM, and with new infections reported each year.

If we are serious about beating HIV/AIDs we need a comprehensive approach that allows all people to access quality life-saving and life-enhancing prevention (such as Pre-Exposure Prophylaxis - PrEP), treatment, care and support services.

Despite this, since 2010 we have seen spending on Public Health Budgets for commissioning sexual health services decimated. Public Health Budgets have been cut by a third since 2010, with an extra £85m to be cut in 2019/20, and it is estimated that £3.2 Billion is needed each year to reverse these cuts.

Advances in drug treatment enable people with HIV to live long and healthy lives, whilst also significantly reducing the risk of HIV being passed on to others. There is now a drug that is clinically proven to prevent contracting HIV (PrEP) but while this drug is available on the NHS in Scotland, it is still restricted to a heavily oversubscribed 'trial' in England. This means that there are people at risk of contracting HIV in Manchester that could be prevented. The Terrence Higgins Trust estimate that every day the NHS delays access to PrEP, 17 people are diagnosed with HIV – and the lifetime cost to the NHS for each diagnosis of HIV is £360,000. Manchester City Council and Manchester Health Care Commissioning have repeatedly lobbied NHS England for a fully funded roll out of PrEP.

Therefore, this Council:

1) Demands that this Government reverses it's cuts to Public Health Services, including sexual health services, and allocates funds fairly according to need
2) Calls on the Secretary of State for Health and NHS England to take action to prevent new HIV infections by ending the trial, guaranteeing future treatment for those on the trial and fully funding and rolling out PrEP on the NHS in England;
3) Calls on Manchester MPs, the GM Mayor and the GM Health and Social Care Partnership to push for a fully funded rollout of PrEP on the NHS.

Resolution

The motion was put to Council and voted on and the Lord Mayor declared that is was carried unanimously.

Decisions

This Council:

1. Demands that this Government reverses it's cuts to Public Health Services, including sexual health services, and allocates funds fairly according to need.

2. Calls on the Secretary of State for Health and NHS England to take action to prevent new HIV infections by ending the trial, guaranteeing future treatment

for those on the trial and fully funding and rolling out PrEP on the NHS in England.

3. Calls on Manchester MPs, the GM Mayor and the GM Health and Social Care Partnership to push for a fully funded rollout of PrEP on the NHS.

CC/19/10 Motion – Transport Poverty

Motion proposed and seconded:

- That Transport Poverty is an issue which is currently affecting economic growth within our city by by-passing residents who are unable to access employment opportunities due to this

- That TfGM gives consideration to help residents on low incomes to better access public transport such as the partnership between TfGM, System One and Jobcentre Plus to provide free day bus tickets to attend job interviews in Greater Manchester, and free and subsidised bus travel for residents returning to work, and reduced travel costs for 16-18 year olds promised by the Mayor of Greater Manchester;

- That Manchester City Council fully supports the re-regulation of bus services, noting that in 2016/17, 76% of public transport trips were taken by bus;

- That while active travel options such as walking and cycling are helpful in terms of reducing car dependency, and supporting health, far more attention should be given to residents for whom these simply aren’t viable, nor desirable.

- That Manchester City Council gives greater consideration to how all Manchester residents can access job opportunities, particularly North Manchester residents being able to access jobs at the Airport, and where we own a significant stake in partners such as Manchester Airport Group, we ensure job opportunities are available to residents without access to cars: and

- That Manchester City Council’s view of public transport provision and that of TfGM, and non-car led transport should be prioritised on poverty and lack of access going forward, and ensuring Manchester residents have access to jobs, or are not isolated for reasons beyond their control and that the priority is not on providing additional transport options to those already well-served simply as they are most vocal.

Resolution

The motion was put to Council and voted on and the Lord Mayor declared that is was carried unanimously.

Decisions

1. That Transport Poverty is an issue which is currently affecting economic growth within our city by by-passing residents who are unable to access employment opportunities due to this.

2. That TfGM gives consideration to help residents on low incomes to better access public transport such as the partnership between TfGM, System One and Jobcentre Plus to provide free day bus tickets to attend job interviews in Greater Manchester, and free and subsidised bus travel for residents returning to work, and reduced travel costs for 16-18 year olds promised by the Mayor of Greater Manchester.

3. That Manchester City Council fully supports the re-regulation of bus services, noting that in 2016/17, 76% of public transport trips were taken by bus.

4. That while active travel options such as walking and cycling are helpful in terms of reducing car dependency, and supporting health, far more attention should be given to residents for whom these simply aren't viable, nor desirable.

5. That Manchester City Council gives greater consideration to how all Manchester residents can access job opportunities, particularly North Manchester residents being able to access jobs at the Airport, and where we own a significant stake in partners such as Manchester Airport Group, we ensure job opportunities are available to residents without access to cars.

6. That Manchester City Council's view of public transport provision and that of TfGM, and non-car led transport should be prioritised on poverty and lack of access going forward, and ensuring Manchester residents have access to jobs, or are not isolated for reasons beyond their control and that the priority is not on providing additional transport options to those already well-served simply as they are most vocal.

(Councillor Hughes declared a prejudicial and disclosable pecuniary interest in the item for the reason that he is employed as a public service vehicle driver and left the chamber prior to its consideration.)

(Councillor Shaukat Ali declared a personal interest in the item.)

CC/19/11 Proceedings of the Executive

The proceedings of the Executive on 12 December 2018 and 16 January 2019 were submitted. The Council was asked to give particular consideration to the following recommendations:

Exe/18/115 Global Monitoring - Council to approve the following:

The use of £6.292m in total from the City Centre Review, Better Care Funding, Adult Social Care and Parking reserves as follows:

- £40K from the City Centre Review – for the Compliance and Enforcement and Homelessness teams to improve data and performance indicators;
- £2.6m from the Better Care Fund Reserve - as part of an overall funding strategy for 2019/20 to provide ongoing contributions for social care and to enable the CCG to access its historic surplus in 2019/20;
- £1.4m from the Adult Social Care Reserve – also as part of an overall funding strategy for 2019/20 to provide ongoing contributions for social care and to enable the CCG to access its historic surplus in 2019/20;
- £1.595m from the Adult Social Care Reserve - for reform staffing, mental health related strength based assessment and supporting the shared lives scheme;
- £175k from the Parking Reserve - to fund hostile vehicle mitigation measures;
- £482k from the Asylum Seekers Reserve – to fund the Local Authority Asylum Support Officer (LAASLO) project, subject to agreement from the contributing authorities.

Exe/18/116 Capital Programme Update - Council to approve the following changes to the Council's capital programme:

- Highways – Residents Parking Schemes. A capital budget increase of £0.553m is requested, funded by £0.396m of applicable Section 106 funding and £0.157m from the Parking Reserve.
- (b) Highways – Automatic Bollards. A capital budget increase of £0.468m is requested, funded from the Parking Reserve, to replace the existing £0.200m borrowing approval.
- (c) Highways – Hostile Vehicle Mitigation Measures. A capital budget increase of £0.264m is requested, funded from the Parking Reserve.

Exe/18/119 The Manchester College – City Centre Campus (Part B) – Council to approve a capital budget increase of £27.6m (£17.6m in 2018/19 and £10m in 2019/20) funded by borrowing.

(Councillor Hacking and Councillor S Murphy each a Disclosable Pecuniary interest in the item, as a board member of the LTE Group. Both left the meeting prior to its consideration.)

Exe/19/03 Capital Programme Update – Council to approve the following changes to the Council's capital programme:

- Highways – Exchange Square water feature refurbishment. A capital budget increase of £0.440m is requested, funded by borrowing.
- Neighbourhoods – relocation of Manchester Visitor Information Centre. A capital budget increase of £0.059m is requested, funded by borrowing.
- Private Sector Housing – transfer of projects from Strategic Acquisitions. A capital budget virement of £1.592m is requested.

- Children's & Families / ICT – Liquid Logic/ContrOCC. A virement of £0.139m from the Early Help project, which this project supersedes, and £0.370m from the ICT Investment Plan is requested.

Exe/19/06 Manchester Airport Car Park Investment – Council to approve a capital budget increase of £5.6. (£3.7m in 2019/20 and £1.9m in 2020/21) funded through prudential borrowing.

(Councillor Leese declared a prejudicial interest in item Exe/19/06, as a Board Member of the Manchester Airport Holdings. He left the meeting prior to its consideration).

Decisions

1. To receive the minutes of the Executive held on 12 December and 16 January 2019.

2. The use of £6.292m in total from the City Centre Review, Better Care Funding, Adult Social Care and Parking reserves.

3. To approve the following changes to the Council's capital programme:

    - Highways – Residents Parking Schemes. A capital budget increase of £0.553m, funded by £0.396m of applicable Section 106 funding and £0.157m from the Parking Reserve.
    - Highways – Automatic Bollards. A capital budget increase of £0.468m, funded from the Parking Reserve, to replace the existing £0.200m borrowing approval.
    - Highways – Hostile Vehicle Mitigation Measures. A capital budget increase of £0.264m, funded from the Parking Reserve.
    - Highways – Exchange Square water feature refurbishment. A capital budget increase of £0.440m, funded by borrowing.
    - Neighbourhoods – relocation of Manchester Visitor Information Centre. A capital budget increase of £0.059m, funded by borrowing.
    - Private Sector Housing – transfer of projects from Strategic Acquisitions funded from a capital budget virement of £1.592m.
    - Children's & Families / ICT – Liquid Logic/ContrOCC. A virement of £0.139m from the Early Help project, which this project supersedes, and £0.370m from the ICT Investment Plan.

4. To approve a capital budget increase of £27.6m (£17.6m in 2018/19 and £10m in 2019/20), funded by borrowing in respect of The Manchester College – City Centre Campus.

5. To approve a capital budget increase of £5.6. (£3.7m in 2019/20 and £1.9m in 2020/21) funded through prudential borrowing in respect of Manchester Airport Car Park Investment.

CC/19/12 Questions to Executive Members under Procedural Rule 23

Councillor Leese responded to a question from Councillor Connolly regarding the management contractor appointed to undertake the refurbishment of the Town Hall and the tendering process used.

Councillor Richards responded to a question from Councillor Connolly regarding the Council's support for residents affected by the replacement cladding dispute with Lendlease.

Councillor N Murphy responded to a question from Councillor M Dar regarding traffic control measures on Albert Street in Beswick.

Councillor Rahman provided a response to a question from Councillor Leech regarding data on school place vacancies.

Councillor Leese responded to a question from Councillor Leech regarding safeguarding to ensure legitimacy of major developments in the city.

Councillor Leese (in the absence of Councillor Stogia) responded to a question from Councillor Leech regarding the reinstatement of a budget for traffic calming projects around schools.

Councillor Leese responded to a question from Councillor Kilpatrick regarding a development plan and strategy for the Gay Village.

Councillor Leese responded to a question from Councillor Kilpatrick regarding risk assessments in preparation for Brexit.

Councillor Akbar replied to a question from Councillor Igbon regarding plans to support the Keep Britain tidy campaign and to raise awareness.

CC/19/13 Scrutiny Minutes

The minutes of the following Scrutiny Committee meetings were submitted:

Health – 4 December 2018 and 8 January 2019
Children and Young People – 4 December 2018 and 8 January 2019
Neighbourhoods and Environment – 5 December 2018 and 9 January 2019
Economy – 5 December 2018 and 9 January 2019
Communities and Equalities – 6 December 2018 and 10 January 2019
Resources and Governance – 6 December and 10 January 2019

Decision

To receive those minutes.

CC/19/14 Proceedings of Committees

The minutes of the following meetings were submitted:

Audit Committee – 10 December 2018
Health and Wellbeing Board – 23 January 2019
Licensing and Appeals Committee – 3 December 2018
Planning and Highways Committee – 13 December and 17 January 2019
Personnel Committee – 12 December 2018 and 29 January 2019
Constitutional and Nomination Committee – 30 January 2019

The Council was asked to give particular consideration to the following recommendations:

Personnel Committee 12 December 2018

PE/18/29 Proposed New Pay Structure – Council to approve the new pay line, with the intention that the new grade structure be formally endorsed as part of the Pay Policy Statement.

Personnel Committee 29 January 2019

PE/19/02 Senior Management Capacity Review -

Council to approve that the role profile and duties of the existing Deputy Chief Executive post are varied as set out in the report and to include the duties of the Council's statutory Section 151 Officer. The post will become Deputy Chief Executive and City Treasurer.

Council to approve that the Deputy Chief Executive and City Treasurer is remunerated at a salary of £150,000 to reflect the increased portfolio and in line with the proposed changes to the Council's Pay Policy Statement detailed elsewhere on this meeting's agenda.

Council to approve the creation of a new post of Strategic Director (Neighbourhoods) at Grade SS5 on the Council's pay and grading structure. This post will take on strategic responsibility for the Neighbourhoods and Highways services. Establishment of this post will enable the disestablishment of the current Chief Operating Officer (Neighbourhoods) post and, in line with ***m people*** principles, this post holder will be ring fenced for assessment to the Strategic Director role.

Council to approve the creation of a new post of Director Policy, Performance and Reform at Grade SS4 on the Council's pay and grading structure. This post will take on strategic responsibility for the Performance, Research & Intelligence; Policy, Partnerships and Research and Reform & Innovation teams and will be funded through equivalent reductions at the tier below.

PE/19/03 Senior Pay and Grading Update -

Council to approve that the changes are implemented with immediate effect.

Council to approve that the Council's Pay Policy Statement in March 2019 is amended to reflect the changes in the senior pay and grading structure.

PE/19/04 Local Government Pension Scheme – Updated Discretions Policy Statement -

Council to adopt the discretionary framework set out in the revised Pension Scheme Policy Statement.

Constitutional and Nomination Committee 30 January 2019

CN/19/3 Membership of Council committees and representation on joint boards and joint committees

To request the Council to suspend Procedural Rule 25.1 to allow the following decision which involve reconsideration of a decision taken by the Council within the previous six months.

To recommend to Council the following changes in appointments to Committees and Joint Committees of the Council:

Committee	Member removed	Member appointed
Greater Manchester Housing, Planning and Environmental Scrutiny Committee	Councillor Wilson	Councillor Clay

Decisions

1. To receive those minutes.

2. To approve the new pay line, with the intention that the new grade structure be formally endorsed as part of the Pay Policy Statement.

3. Council to approve that the role profile and duties of the existing Deputy Chief Executive post are varied as set out in the report and to include the duties of the Council's statutory Section 151 Officer. The post will become Deputy Chief Executive and City Treasurer.

4. Council to approve that the Deputy Chief Executive and City Treasurer is remunerated at a salary of £150,000 to reflect the increased portfolio and in line with the proposed changes to the Council's Pay Policy Statement detailed elsewhere on this meeting's agenda.

5. Council to approve the creation of a new post of Strategic Director (Neighbourhoods) at Grade SS5 on the Council's pay and grading structure. This post will take on strategic responsibility for the Neighbourhoods and Highways services. Establishment of this post will enable the disestablishment of the current Chief Operating Officer (Neighbourhoods) post and, in line with

m people principles, this post holder will be ring fenced for assessment to the Strategic Director role.

6. Council to approve the creation of a new post of Director Policy, Performance and Reform at Grade SS4 on the Council's pay and grading structure. This post will take on strategic responsibility for the Performance, Research & Intelligence; Policy, Partnerships and Research and Reform & Innovation teams and will be funded through equivalent reductions at the tier below.

7. To approve that the changes to the senior pay and grading structure are implemented with immediate effect.

8. To approve that the Council's Pay Policy Statement in March 2019 is amended to reflect the changes in the senior pay and grading structure.

9. To adopt the discretionary framework set out in the revised Pension Scheme Policy Statement.

10. To agree to suspend Procedural Rule 25.1 to allow the following decision which involve reconsideration of a decision taken by the Council within the previous six months.

11. To approve the changes to the membership of Committees and joint boards and joint committees, as detailed below:

Committee	Member removed	Member appointed
Greater Manchester Housing, Planning and Environmental Scrutiny Committee	Councillor Wilson	Councillor Clay

Health and Wellbeing Board

Appointment – Dr Clare Lake (South MHCC GP Board Member)

(Councillor Ellison declared a prejudicial interest in a planning application under item PH/19/11 Planning and Highways Committee minutes 17 January 2019 for the reason that he had previously expressed a view.)

CC/19/12 Business of the Combined Authority, Joint Authorities and Joint Committees

The Lord Mayor reported that a question had been received regarding business of the Combined Authority, Joint Authorities and Joint Committees.

The Leader of the Council responded to a question from Councillor Leech regarding occupancy rates on Metrolink.

The Leader of the Council responded to a question from Councillor Leech regarding bus services in Greater Manchester.

The Leader of the Council responded to a question from Councillor Kilpatrick regarding Metrolink ticket pricing.

The Leader of the Council responded to a question from Councillor Kilpatrick regarding provisions for homelessness in Manchester.

CC/19/13 Urgent Key Decisions

The Council considered the report of the City Solicitor on key decisions that had been exempted from call-in.

Decision

To note the report.

CC/19/14 Draft Code of Corporate Governance

The Council considered the report of the Deputy Chief Executive which proposed a revised Code of Corporate Governance in accordance with published guidance. The Code will be monitored on an annual basis through the Council's Annual Governance Statement.

Decision

To approve the revised Code of Corporate Governance for incorporation within the Council Constitution.

Art Galleries Committee

Minutes of a meeting held on 13 February 2019

Present:
Councillor Rahman– In the Chair
Councillors Akbar, Bridges, Craig, Leech, Ollerhead, N Murphy, S Murphy, Richards, Stogia

Also present:
Councillors Mahamed and Sheikh

AG/19/01 Minutes

Decision

To approve as a correct record the minutes of the meeting held on 7 February 2018.

AG/19/02 Manchester City Galleries' report and Revenue Budget 2019/20

The Committee considered a joint report of the Director of Manchester City Galleries and the City Treasurer which set out performance of City Galleries over the course of 2018/19. It also outlined budget and future delivery proposals for 2019/20 within the context of the City Galleries Strategic Plan. The Committee was invited to approve the draft budget and recommend it for Executive approval as part of the Council's wider budget setting process.

The Director of Manchester City Galleries introduced the report setting out the broad offer of the City Galleries function, its contribution to the city's wider strategic objectives and proposals to enhance the offer in a way that is driven by the needs of the people of the city, represents a tool for social change and makes a contribution which is above and beyond the culture sector. This work would be underpinned through the achievement of the following objectives:

- Delivering **social impact** and societal health by developing a holistic and purposeful artistic programme of art and education
- **Good Housekeeping,** good economics and how to make the best of resources
- Delivery of the **Art School for Life** programme to campaign for the role of art and artists in broader society through a full spectrum approach
- Establishing a **Civic Think Tank** to create and convene a space for voices across the city that nurtures diversity and values nuance and complexity across all constituencies over a range of artistic and social programmes

The Committee welcomed the achievements to date, noting that 2018/19 had seen the highest footfall with mixed audiences from across the city. Members particularly welcomed activities that had been undertaken to strengthen engagement by widening participation through outreach programmes to help to break down the barriers. There was particular welcome for the outreach activity around schools which, through enabling children to tap into their cultural heritage, had helped to connect with harder to reach communities and had had a positive knock on effect on cultural visits to the city centre. Members were mindful of the positive correlation between cultural engagement and educational attainment. It was explained that further targeted work was underway to tackle low levels of engagement with under-represented wards and / or communities. Discussions also turned to how levels of engagement were analysed across the city. It was explained that work was underway to gather city-wide data on the social impact of interventions to develop a robust evidence base.

There was a discussion about the significance of the Manchester Together Archive and how, despite sitting outside of the core function of galleries, the memorial material had become a profoundly important aspect and celebration of the city galleries civic role. It was also suggested that the collection could be used as a tool to educate and change lives as part of the social change agenda.

Decisions

1. To approve draft gross budget for 2019/20 of £3.562m, with cash limit budget contribution from Manchester City Council of £2.186m.

2. To recommend the budget to Executive for approval as part of the Council's budget setting process.

3. To delegate authority to approve and adopt a new Loans Policy and Collection Development Policy to the Director of Manchester Art Gallery, in consultation with the Executive Member for Schools, Culture & Leisure, so as not to delay the adoption of the policy until the committee's meeting in 2020.

4. To delegate authority to Director of Manchester Art Gallery, in consultation with the Executive Member for Schools, Culture & Leisure, to approve disposals in accordance with the Disposals Policy and Procedures approved at the Art Galleries Committee meeting in 2012 (Minute AG/12/02).

Executive

PART PROCEEDINGS of the meeting held on Wednesday, 13 February 2019

Present: Councillor Leese (Chair)

Councillors: Akbar, Bridges, Craig, N Murphy, S Murphy, Ollerhead, Rahman, Stogia, Richards

Also present as Members of the Standing Consultative Panel:
Councillors: Karney, Leech, M Sharif Mahamed, Sheikh, Midgley, Ilyas, Taylor and S Judge

Also present: Councillors: Flanagan

Exe/19/11 The Budget 2019/20

A report submitted by the Chief Executive and the City Treasurer set out the background and the context for the suite of reports being considered at the meeting that constituted the Council's budget proposals for 2019/20 and beyond. The report examined and explained:

- the priorities that had shaped the three-year Strategy;
- progress to date, building on the recent State of the City analysis;
- a summary of the financial position; and
- the required statutory assessment of the robustness of the proposed budget.

The next year, 2019/20, was to be the last year of the Government's four-year local government Finance Settlement. The future beyond 2019/20 was uncertain and the principal uncertainties were described in the report.

The report examined the development of the 2019/20 budget and the many budget changes that had been made throughout 2018/19 that were part of the context for the 2019/20 proposals.

The report explained the savings proposals contained in the 2019/20 budget. The budget also included proposals for additional investment above that originally planned as part of the 2018/19 budget setting process:

- £4.6m additional investment into Children's Services to address budget pressures due to the increased number of placements for looked after children as well as seeking to release resource for early help and prevention, and a further £150k for Youth Services;
- £7.6m (rising to £8.0m for years 2 and 3) into adult social care to ensure service stability and that residents can access services on a timely basis;
- £500k to support further action to tackle littering, fly-tipping and poor business waste management;
- £255k to support food inspections;

- £500k for enhanced enforcement activity in the private rented sector, as part of the homelessness budget; and
- £1.1m for welfare related support funded from additional council tax revenues in 2019/20, with the intention being for these costs will to be met from additional Council Tax income relating to the proposed changes to empty property reliefs.

The report showed how as a result of additional monies announced by Government a balanced budget was now anticipated for 2018/19. A balanced budget was also being proposed for 2019/20. The overall position was:

Outline Balanced Budget 2019/20	**2018/19 £000**	**2019/20 £000**
Resources Available		
Business Rates related funding	324,753	314,653
Council Tax	154,070	166,507
Other non-ring-fenced Grants / Contributions	38,735	54,426
Dividends and Use of Airport Reserve	53,342	62,390
Use of Reserves to support the budget	8,743	12,439
Total Resources Available	**579,643**	**610,415**
Resources Required		
Corporate Costs:		
Levies/Charges	68,655	70,090
Contingency	3,103	1,600
Capital Financing	44,507	44,507
Transfer to Reserves	7,286	6,902
Total Corporate Costs	**123,551**	**123,099**
Directorate Costs:		
Additional Allowances and other pension costs	10,030	10,030
Insurance Costs	2,004	2,004
Directorate Budgets	439,919	465,272
Inflationary Pressures and budgets to be allocated	4,139	9,945
Total Directorate Costs	**456,092**	**487,251**
Total Resources Required	**579,643**	**610,350**
Transfer (to) General Fund Reserve	**0**	**(65)**

It was explained that the Local Government Act 2003 required the City Treasurer as the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report set out the City Treasurer's assessment.

The City Treasurer had examined the major assumptions used within the budget calculations and had carried out sensitivity analysis to ascertain the levels of potential risk in the assumptions being used. The key risks identified to the delivery of a balanced budget and their mitigation were set out in the report.

It was the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account had been identified and that suitable proposals were being put in place to mitigate against these risks where possible. The Council's Budget Monitoring procedures were well established and designed to monitor high level risks and volatile budgets. An assessment of anticipated business rates income had been carried out based on the information available and provision had been made for outstanding appeals. The provision was considered to be prudent. The City Treasurer considered that the assumptions on which the budget had been proposed, whilst being challenging, were manageable within the flexibility allowed by the General Fund balance. This, and the fact that the Council holds other reserves that can be called on if necessary, meant that the City Treasurer was confident that overall the budget position of the Council could be sustained within the overall level of resources available.

Thanks were expressed at the meeting for the hard work of the City Treasurer and all the Council's staff who had contributed to the preparation of the budget and business plans.

Decisions

1. To agree to consider the proposed Revenue Budget and Capital Strategy in the context of the overarching framework established in this report.

2. To note the City Treasurer's review of the robustness of the estimates and the adequacy of the reserves.

Exe/19/12 Medium Term Financial Plan 2019/20 - 2021/22

The report of the Chief Executive and City Treasurer set out the revenue budget proposals for 2019/20 based on the outcome of the Provisional Local Government Finance Settlement and the issues which needed to be taken into account prior to the Council finalising the budget and setting the Council Tax for 2019/20.

In March 2018, as part of setting the 2018/19 budget, an initial budget for 2019/20 had been approved by the Council. That had anticipated a total funding requirement of £588.379m, and a funding shortfall of £8.967m. The report described all the subsequent changes that had been made to that indicative budget. New budget pressures had arisen, revised savings and cost recovery proposals had been developed, and further sources of money had been identified or grants provided. The total saving target for 2019/20 was £14.798m. The 2019/20 budget now being put forward had a total funding requirement of £610.350m and now anticipated a small budget surplus of £65,000, rather than a funding deficit. The comparison of the two proposals being:

Table 1 - Comparison of 201/20 Budgets	March 2018 £000	February 2019 £000	Change
Resources Available			
Business Rates related funding	320,195	314,653	(5,542)
Council Tax	161,723	166,507	4,784
Other non-ring fenced Grants / Contributions	39,662	54,426	14,764
Dividends and Use of Airport Reserve	53,342	62,390	9,048
Use of Reserves to support the budget	4,490	12,439	7,949
Total Resources Available	**579,412**	**610,415**	**31,003**
Resources Required			
Corporate Costs:			
Levies/Charges	68,862	70,090	1,228
Contingency	2,100	1,600	(500)
Capital Financing	44,582	44,507	(75)
Transfer to Reserves	3,409	6,902	3,493
Sub Total Corporate Costs	**118,953**	**123,099**	**4,146**
Directorate Costs:			
Additional allowances & other pension costs	10,183	10,030	(153)
Insurance Costs	2,004	2,004	0
Directorate Budgets	423,111	465,272	42,161
Inflation Pressures / budgets to be allocated	34,128	9,945	(24,183)
Total Directorate Costs	**469,426**	**487,251**	**17,825**
Total Resources Required	**588,379**	**610,350**	**21,971**
Surplus (Deficit)	(8,967)	65	

These budgets were based on the assumption that the Council's element of Council Tax would increase by 1.99% along with a further 1.5% specifically to care for vulnerable adults. Whilst the 2019/20 Local Government Provisional Finance Settlement had again given the Council the flexibility to raise the council tax by a further 1% to cover the cost of core services, the assumption in the budget was to keep council tax in 2019/20 at the level as committed to in 2017-20 budget strategy, and not implement that further 1% increase. When the Greater Manchester Council Tax precept increases were added to the Council's own the total increase for Manchester's Council Tax Payers was anticipated as being 5.06%.

The assumption for the council tax collection rate was 96.5%. This was based on historic trends in collection as council tax due in the current year will continue to be collected over a number of years.

The report provided a breakdown of the other non-ringfenced grants and contributions included in the budget and the issues around the most significant grants and contributions were described.

Table 2 - Other Non-Ringfenced Grants and Contributions	2019/20 £000
Better Care Fund (Improved)	24,374
Additional Better Care Fund (Improved)	3,775
New Homes Bonus	8,202
Adult Social Care Winter Pressures Grant	2,666
Contribution from MHCC	4,000
Children and Adults Social Care Grant	4,555
Education Services Grant	1,260
Bus Reform - GMCA contribution	1,618
Brexit Preparation funding	105
Housing Benefit Administration Subsidy	2,514
Universal Credit Funding	314
Council Tax Support Administration. Subsidy	881
Care Act Grants	162
Total Non Ring-fenced Grants	**54,426**

The report then considered the expenditure proposals. The forecast of levy payments the Council would have to make to other authorities in 2019/20 was

Table 3 - Levies	2019/20 £000
Transport Levy	38,157
GMCA Waste Services	31,614
Environment Agency	217
Probation (Residual Debt)	22
Magistrates Court (Residual Debt)	9
Port Health Authority	71
Net Cost of Levies	**70,090**

Although included within the table of levies, the Waste Levy was administered by the Neighbourhoods Directorate and would be included within the Directorate’s published budget (Minute Exe/19/15).

The contingency provision of £1.6m was £1m in relation to risks around the waste levy and collection and £0.6m as an unallocated contingency to meet future unforeseen expenses.

The proposed Insurance costs of £2.004m related to the cost of external insurance policies as well as contributions to the insurance fund reserve for self-insured risks.

The capital financing budget of £44.507m supports the costs of borrowing including interest costs and the minimum revenue provision, plus contributions to the capital financing reserve for revenue funding of the programme. Of this £25.637m would be funded by interest received on loans made by the Council to Manchester Airport Group and other partner organisations.

Specific transfers to reserves of £6.902m in 2019/20 were being proposed:

- Minimum Revenue Provision (MRP) £2.4m saving transferred to the Town Hall Reserve
- Transfer of £105k to reserves following the BREXIT preparation funding announcement.
- Transfer to Social Care Reserve of £2.904m including expected transport rebate from GMCA and additional Small Business Rates Relief grant
- Transfer to Adult Social Care Reserve £1.493m in 2019/20 from the element of Social Care grant to be used in 2020/21

Allowances of £10.030m had also been made for retired staff and teachers' pensions to meet the cost of added-years payments awarded to former employees.

The report explained the main assumptions that had been made when calculating provision to be made for inflation and other anticipated costs. These could not, at this point in time, be allocated to Directorate or other budgets. They would instead be allocated throughout the coming year. The total provision being proposed was £9.945m, broken down into:

Table 4 - Inflationary pressures and budgets to be allocated	**2019 /20 £000**
Non-pay inflation	3,539
Pay inflation at 2%	4,323
Employee costs of Minimum Wage	775
Apprenticeship Levy 0.5%	900
Carbon Reduction Tax / Climate Change Levy	368
Contribution to Cemeteries Reserve	40
Total	**9,945**

The inflation and pressures allocations that related to the health and social care pooled budget were not included in Table 3 as they had been included within Adult Social Care cash-limit budget, being:

Table 5 - Inflationary pressures and budgets to be allocated in the Pooled Budget	**2019 /20 £000**
National Living Wage	4,258
Pay inflation	1,002
Non-pay inflation	2,684

The proposals for the Directorates' cash limit budgets were detailed in the Business Plan reports that were also being considered at the meeting. The overall position was:

Table 6 - Cash Limit Budgets	**2019/20 £000**
Children's Services	120,434
Adults Services	198,263
Homelessness	13,375

Table 6 - Cash Limit Budgets	2019/20 £000
Corporate Core	67,838
Neighbourhood Directorate	59,847
Strategic Development	5,515
Total	**465,272**

The figures in the table for the Neighbourhood Directorate did not include the waste levy of £31.614m as that is shown above in Table 3.

The report explained that the Council holds a number of reserves, all of which, aside from the General Fund Reserve, had been set aside to meet specific future expenditure or risks. A fundamental review of all the reserves held had been carried out as part of the budget setting process. The reserves include:

- statutory reserves – such as the Bus Lane and Parking Reserves, where the use of these monies was defined in statute
- PFI Reserves – held to meet costs across the life of the PFI schemes
- Reserves to offset risk and manage volatility – such as the Insurance Fund Reserve, and reserves to smooth volatility in for example adult social care placements due to winter pressures
- Schools reserves – schools funding which the council cannot utilise
- Reserves held to support capital schemes
- Reserves to support economic growth and public sector reform
- Grants and contributions which fall across more than one year – under accountancy standards these are held in a reserve.

The report set out the planned use of reserves in 2019/20 to support revenue expenditure. It also explained the statutory requirement to place income generated from on-street parking and bus lane enforcement into separate reserves. These reserves could only be used to fund certain types of highway and environmental improvements, and provided there was no requirement for the Council to provide additional off street parking or for financial support to existing off street parking. The expected balance on these reserves at the 1 April 2019 was £11.936m. It was estimated that £9.049m will be added to these reserves during 2019/20 and £8.596m used in accordance with the statutory requirements to fund spend in the Neighbourhoods Directorate as well as part of the transport levy. The total planned use of reserves was:

Table 7 - Use of Reserves	2019/20 £'000
Statutory Reserves:	
Bus Lane and Parking reserves	5,504
Other Statutory Reserves	85
Balances Held for PFI's	**500**
Reserves directly supporting the revenue budget:	
Budget smoothing reserve	2,500
Business Rates Reserve	490
Bus Lane (Supporting Transport Levy)	3,092
Social Care Reserve	6,357

Table 7 - Use of Reserves	**2019/20 £'000**
Service Reserves:	
Adult Social Care	3,643
Social Care Reserve	1,320
Small Specific Reserves	**124**
Reserves held to smooth risk / assurance:	
Airport Dividend Reserve	45,413
Business Rates Reserve	2,000
Other reserves held to smooth risk / assurance	1,730
Reserves held to support capital schemes:	
Capital Fund	10,237
Other reserves held to support capital schemes	10,408
Reserves held to support growth and reform:	
Clean City Reserve	412
Better Care Reserve	1,955
Town Hall Reserve	2,867
Our Manchester Reserve	2,584
Other Reserves to support growth and reform	164
Grants and Contributions used to meet commitments over more than one year	**686**
Total	**102,071**

The meeting was addressed by Councillor Flanagan, a Ward Councillor for the Miles Platting and Newton Heath Ward. Councillor Flanagan spoke of the way that Council had, as part of the 2018/19 budget process, made changes to the mechanisms for providing grants to support community organisations. He explained that as a consequence of those changes some smaller community groups had lost their funding from the Council, impacting on the work they had been doing in their local community. He explained that since the change had been implemented a number of such groups had undertaken development to strengthen their governance arrangements and so were now in a better position to once again obtain Council support. He asked the Executive to consider a change to the budget to be proposed to Council to allocate from the existing Our Manchester Budget a fund of £300,000 to support community groups not currently in receipt of Council support under the VCS Grants Scheme but who have now made sufficient progress in their development to be able to receive support from the Council; and also that a £100,000 be set aside to support new and existing groups, particularly where there is a need for support to help reduce demand on Council services.

Councillor Flanagan’s request was supported by the Leader and the Deputy Leader and agreed by the meeting, becoming part of the budget proposals that the Executive was to be put to the Council.

Decisions

1. To note that the financial position has been based on the Final Local Government Finance Settlement confirmed on 29 January 2019.

2. To note that there has been a review of how the resources available are utilised to support the financial position to best effect, including use of reserves and dividends, consideration of the updated Council Tax and Business Rates position, the financing of capital investment and the availability and application of grants.

3. To agree to take into account, as part of the consideration of the budget proposals, the Directorate Business Plans and the proposals for service and expenditure changes.

4. To note the anticipated financial position for the Authority for the period 2018/19 to 2019/20.

5. To note that the Capital Strategy for 2019/20 had also been presented to this meeting (Minute Exe/19/13).

6. To note the City Treasurer’s review of the robustness of the estimates and the adequacy of the reserves as set out in the Revenue Budget report also considered at the meeting (Minute Exe/19/11).

7. To recommend that the Council:

   a. approve for 2019/20 an increase in the basic amount of Council Tax (i.e. the City’s element of council tax) by 3.49% (including 1.5% for adult social care);

   b. approve for 2019/20 the contingency sum of £1.6m;

   c. delegate authority to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources to make allocations from the inflationary pressures and budgets to be allocated sum of £9.945m (as shown above in Table 4). In doing so it was noted that the MHCC elements of those costs (Table 5) had been included in the Pooled Budget and were subject to draw-down in consultation with MHCC Finance Committee, and consultation with the Executive Member for Finance and Human Resources.

   d. approve for 2019/20 the corporate budget requirements to cover levies / charges of £70.090m, capital financing costs of £44.507m, additional allowances and other pension costs of £10.030m and insurance costs of £2.004m;

   e. approve for 2019/20 the estimated utilisation of £8.596m in 2019/20 of the surplus from the on street parking and bus lane enforcement reserves; after determining that any surplus from these reserves is not required to provide additional off street parking in the authority; and

   f. approve for 2019/20 the position on reserves as identified in the report, noting that the position is subject to any further calls on reserves that arise before the meeting of the Council.

g. allocate from the existing Our Manchester Budget a fund of £300,000 to support community groups not currently in receipt of Council support under the VCS Grants Scheme but who have now made sufficient progress in their development to be able to receive support from the Council; and also that a £100,000 be set aside to support new and existing groups, particularly where there is a need for support to help reduce demand on Council services.

8. To delegate authority to the City Treasurer and Chief Executive to agree the use of the Adult Social Care Reserve, Social Care Reserve and Our Manchester Reserve, in consultation with Executive Members for Finance and Human Resources, Children's Services, and Adult Health and Wellbeing.

9. To approve the Directorate cash limits as set out in Table 6 above.

10. To approve the in principle contribution to the MHCC Section 75 (S75) Pooled Budget subject to the approval of the S75 agreement at a future meeting.

11. To delegate authority to the City Treasurer and Chief Executive in consultation with the Executive Member for Finance and Human Resources and the Leader of the Council to draft the recommended budget resolution for Council in accordance with the legal requirements outlined in this report and to take into account the decisions of the Executive and any final changes and other technical adjustments.

12. To note that there is a requirement to provide an itemised council tax bill to inform Council Tax payers when part of any increase in council tax is being used to fund adult social care, and to provide specific information about the purpose of the council tax increase in the information supplied with demand notices.

Exe/19/13 Capital Strategy and Budget 2019/20 to 2023/24

Consideration was given to the report submitted by the City Treasurer. The report presented the capital budget proposals before their submission to the Council for approval.

The capital programme 2019/20 to 2023/24 comprised the continuation of the existing programme. For continuing schemes the position was based on that set out in the Capital Programme Monitoring 2018/19 also being considered at this meeting (Minute Exe/19/10). Also included were those future projects which were considered likely to be brought forward, subject to the submission of a successful business case. For any project seeking capital expenditure approval a business case must be drafted, covering:

- how the project links to the City Council's strategic priorities, social value, and any statutory requirements;
- what economic value the project will provide to the City, including social value;
- funding model, with evidence of cost and capital and revenue implications;

- timescale for delivery and identification of risks to the project, including legal issues; and
- what the project will achieve, and the benefits that will be realised.

Details on the projects within the programme were set out in the report and the full list of the proposed projects was appended to the report.

If agreed, then the proposals contained in the report would create a capital programme of £505.6m in 2019/20, £419.0m in 2020/21, and £244.0m in 2021/22. Within the 2019/20 total was £146.5m of expenditure on behalf of Greater Manchester, and £38.0m in 2020/21. The proposed funding for the programme was:

Capital Programme Funding	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**Total £m**
Grant	116.3	84.0	19.5	2.4	0.8	223.0
External Contribution	27.3	20.0	3.7			51.0
Capital Receipts	24.8	45.6	11.5		7.5	89.4
Revenue Contribution	37.6	51.7	34.8	4.9		129.0
Borrowing	153.1	179.7	174.5	79.6	30.7	617.6
Total	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,110.0**

The revenue budget proposals set out in the report on the Medium Term Financial Plan 2019/20 - 2021/22 included provision to finance this level of borrowing.

Decisions

1. To commend the report to Council.

2. To note the proposed Capital Strategy.

3. To delegate authority to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to make alterations to the schedules for the capital programme 2018/19 to 2023/24 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

Exe/19/14 Corporate Core Business Plan 2019/20

The Deputy Chief Executive, City Treasurer and City Solicitor presented the final proposals for the Corporate Core (the Chief Executive's and the Corporate Services directorates) budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the directorates' revenue budgets of £67.838m for 2019/20.

The report described how the role of the Core as providing strategic leadership to drive delivery of the Our Manchester Strategy ambitions, sustain growth across the city, better connect residents to that growth, create attractive places to live work and visit, and reduce the costly demands placed on public services. As well as driving change, the Core supported the rest of the organisation through Human Resources and Organisational Development, ICT, Finance, Legal, Communications and other services.

The report set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the Corporate Core's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, and Risk Register.

The financial plan for the services was:

Service Area	**2018/19 Net Budget £'000**	**Savings & Recovery £'000**	**Growth & Pressures £'000**	**2019/20 Net Budget £'000**
People, Policy & Reform				
HR/OD	4,445	-50	0	4,395
Policy, Partnership, Research & Culture	9,248	-100	0	9,148
Communications	3,690	-25	0	3,665
Reform and Innovation	906	-4	0	902
People, Policy and Reform Sub Total	**18,289**	**-179**	**0**	**18,110**
Performance, Research and Intelligence	4,527	-60	0	4,467
Legal and Democratic Services				
Legal Services	2,811	-100	0	2,711
Democratic and Statutory Services	3,582	0	0	3,582
Executive	3,131	0	0	3,131
Legal and Democratic Services Sub Total	**9,524**	**-100**	**0**	**9,424**
Corporate Items	1,627	0	0	1,627
Total Chief Executives	**33,967**	**-339**	**0**	**33,628**
Corporate Services				
ICT	14,035	-605	0	13,430
Procurement	972	0	0	972
Commissioning	355	-15	0	340
Revenue and Benefits	8,826	0	1100	9,926
Financial Management	5,653	-390	0	5,263
Audit, Risk and Resilience	1,401	0	0	1,401
Shared Service Centre	803	0	0	803
Capital Programmes	-199	0	0	-199
Corporate Items	314	0	0	314
Customer Services	4,161	0	0	4,161
Commercial Governance	246	0	0	246

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Total Corporate Services	**36,567**	**-1,010**	**1,100**	**36,657**
Cross cutting savings	-447	-2,000	0	-2,447
Corporate Core Total	**70,087**	**-3,349**	**1,100**	**67,838**

It was noted that the Resources and Governance Scrutiny Committee had recently considered and endorsed the plan (Minute RGSC/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/15 Neighbourhoods Directorate Business Planning 2019/20

The Deputy Chief Executive presented the final proposals for the directorate's budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the directorate's revenue budget of £91.361m for 2019/20.

The report explained the Directorate's contributions to Council priorities of working with Manchester's communities to create and maintain clean, green, safe and vibrant neighbourhoods that Mancunians can be proud of. The report described how the Directorate provided a key role in supporting the broader council priorities as set out in the Corporate Plan. Libraries, art galleries, leisure centres, parks, play areas and events all supported the city's children and young people to be happy, healthy and successful.

The report set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the directorate's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, and Risk Register.

The financial plan for the service was:

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Neighbourhood Management	202	-100	0	102
Waste & Street Cleaning	12,586	-1,150	3,082	14,518
Waste Levy & Disposal	16,712	-3,000	21,445	35,157
Parks, Leisure & Events	5,025	-300	0	4,725
Grounds Maintenance	3,129	0	0	3,129
Neighbourhood Investment Fund	214	0	0	214
Community Safety & Compliance	9,653	-156	255	9,752
Libraries, Galleries & Culture	8,859	0	0	8,859
City Co.	234	0	0	234

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Core Cities	52	0	0	52
Development Fund	0	0	0	0
Neighbourhood Teams	2,479	0	0	2,479
Total Neighbourhoods	**59,145**	**-4,706**	**24,782**	**79,221**
Traded Services	-3,483	-60	0	-3,543
Directorate Support	841	0	0	841
Highways Service	15,027	-185	0	14,842
Total	**71,530**	**-4,951**	**24,782**	**91,361**

It was noted that the Communities and Equalities, and the Neighbourhood and Environment Scrutiny Committees had each recently considered and endorsed the plan (Minutes CESC/19/08 and NESC/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/16 Children's Services and Education Business Planning 2019/20

The Strategic Director for Children's and Education Services presented the final proposals for the directorate's budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the directorate's revenue budget of £120.434m for 2019/20.

The report described the directorate's ambitious savings and transformation programme and the significant challenges facing it which were linked to the impacts of welfare reform, demographics and wider public sector austerity measures. These included:

- reduction in Government funding for the Troubled Families programme;
- school funding reforms compounding a real-terms reduction in school budgets;
- sustained high 'demand' for a statutory social work services;
- rising costs in the external care market;
- increasing demand for a statutory Social Work Service, looked after children and leaving care placements;
- increase in the number of children with an Education Health and Care Plan; and
- pressure in schools 'high needs' funding block.

The programme of savings, growth and investment was described in detail in the report. The report also set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the directorate's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, Risk Register and savings schedule for 2019/20.

The financial plan for the service was:

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Children's Safeguarding	83,011	-2,725	13,016	93,302
Education	22,440	-230	565	22,775
Directorate Core and Back Office	4,447	-90	0	4,357
Total	109,898	-3,045	13,581	120,434

It was noted that the Children and Young People Scrutiny Committee had recently considered and endorsed the plan (Minute CYP/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/17 Dedicated Schools Grant 2019/20

The budgets for schools are funded by the Dedicated Schools Grant (DSG), a ring-fenced grant that can only be applied to meet costs that fall within the schools' budgets. Any under or over-spend of grant from one year must be carried forward and applied to the schools' budgets in future years. The DSG is provided by Government to local authorities and each local authority distributes the grant to the local educational establishments.

A report submitted by the Director of Education explained how the allocated DSG was distributed across the schools and supported establishments in Manchester.

The report explained that for 2019/20 the DSG would be made up of four blocks: schools block, early years block, high needs block and central services schools block. It was reported that Manchester was to receive a DSG of £530.057m.

During the autumn of 2018 the Council had consulted schools and the Schools Forum on a transfer of funding in 2019/20 from the schools block to the high needs block of up to 0.5% per pupil. That transfer was intended to address an underlying pressure in the High Needs budget from more children needing Education, Health and Care Plans. However, that transfer would not now be necessary as a result of the Government providing additional DSG for high needs of £2.562m (£1.281m for each of 2018/19 and 2019/20). Despite this increase there were continuing pressures on the high needs block.

The breakdown of the DSG in 2019/20 would be:

DSG	Schools £m	Central Services £m	High Needs £m	Early Years £m	Total £m
Retained School Budgets	3.750	3.658	22.930	1.720	32.058
Individual School Budgets	405.323	0	53.568	39.108	497.999
DSG 2019/20	**409.073**	**3.658**	**76.498**	**40.828**	**530.057**

It was noted that the Children and Young People Scrutiny Committee had recently considered and endorsed the report (Minute CYP/19/09).

Decision

To note and accept the 2019/20 individual schools' budgets and local authority retained school budgets as determined from the Dedicated Schools Grant allocation from Government.

Exe/19/18 Strategic Development Business Planning 2019/20

The Strategic Director (Development) presented the final proposals for the directorate's budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the directorate's revenue budget of £5.515m for 2019/20.

The report described the significant contribution the service was making to the development and regeneration in the city, referencing many of the commercial and residential development schemes across the city.

The report set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the directorate's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, and Risk Register.

The financial plan for the service was:

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Operational Property	7,052	0	0	7,052
Facilities Management	9,025	0	0	9,025
Property Rationalisation	0	0	0	0
Investment Estate	(12,290)	(1,700)	0	(13,990)
Strategic Development	324	0	0	324
City Centre Regeneration	425	0	0	425
Housing & Residential Growth	1,577	0	0	1,577
Planning, Building Control & Licensing	(601)	(20)	0	(621)
Work & Skills	1,723	0	0	1,723
MAES	0	0	0	0
Our Town Hall Project	0	0	0	0
Total Strategic Development	**7,235**	**(1,720)**	**0**	**5,515**

It was noted that the Neighbourhoods and Environment Scrutiny Committee, the Economy Scrutiny and the Resources and Governance Scrutiny Committee had each recently considered and endorsed the plan (Minutes NESC/19/09, ESC/19/14 and RGSC/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/19 Housing Revenue Account 2019/20 to 2021/22

A report by the Strategic Director (Development) and City Treasurer presented the proposed budget for the Housing Revenue Account (HRA) for 2019/20 and indicative budgets for 2020/21 and 2021/22.

The report set out the requirements placed on the Council with respect to the HRA budget:

- the Council had to formulate proposals or income and expenditure for the financial year which sought to ensure that the HRA would not show a deficit balance;
- to keep a HRA in accordance with proper practice to ensure that the HRA is in balance taking one year with another; and
- the HRA must, in general, balance on a year-to-year basis so that the costs of running the Housing Service must be met from HRA income.

Under a variety of arrangements, the Council owns and manage just under 16,000 properties within the HRA. The arrangements included three PFI schemes and the stock managed by either Northwards Housing or other Registered Social Landlords. During 2018/19 the Council was anticipating selling around 175 properties under the Right to Buy scheme.

Included in the report was the forecast for the HRA in 2018/19 to have an in-year surplus of £2.764m, compared to a budgeted deficit of £6.769m, and the main reasons for that change were explained in the report.

The proposed budget reflected the latest information on implementation of the Housing and Planning Act 2016 and Welfare Reform Act 2016. The legislation required social housing rents to be reduced by 1% each year for four years from April 2016. The 2019/20 budget period would be the last year of that four-year period. The mandatory 1% rent reduction had been reflected in the financial plan being put forward. The proposed rents levels included a reduction of 1% to all properties except for housing properties managed under a Private Finance Initiative (PFI) contract, where the rent would be increased by 3.4% (CPI + 1%).

Gas for the communal heating systems was sourced as part of the City Council's overall gas contract. The existing wholesale gas contract was to expire shortly and indications were that the wholesale gas price would increase by about 26%. Therefore, it would be necessary to increase the current heating charges by between 17.8% and 71.9% so as to ensure that the costs of gas used were recovered through the tariffs charged for tenants and residents. However, in order to protect residents, many of whom are vulnerable and find themselves in financially challenging situations, it was proposed that any increase in heating charges be capped at 20%, and the difference between the actual increased gas costs and charges to tenants funded from the HRA. In 2019/20 this would result in a deficit of £104k in the income for communal heating. Appended to the report was a complete schedule of proposed heating tariffs for pay by rent and pay by prepayment card, showing the percentage change for 2019/20 after the application of the 20% cap.

The report explained that in 2018 a 1% reduction in the Northwards management fee for both 2018/19 and 2019/20 had been agreed (Minute Exe/18/019). The 2019/20 budget therefore included that 1% reduction.

In 2015/16 it had been agreed that garage rents should be brought in line with dwelling rents (Minute Exe/15/021). To achieve that, it was agreed that garage rents were to be increased by 3.92% on top of the increase applied to dwelling rents for the five year period 2015-2020. Given the reduction in rents, it was therefore proposed and agreed that garage rents increase by 2.92% in 2019/20, as they had done in 2018/19.

The report also explained that rent income was normally calculated on the basis of a 52 week rent year, but because in an average year there are 52.17 weeks, it was necessary to include an extra week every 5 or 6 years to remain in line with the calendar year. That had therefore resulted in a 53-week rent year for tenants in some years, and 2019/20 would be such a year. However, the Government had advised that Universal Credit would not reflect the 53 weeks due, and would continue being payable for 52 weeks and paid in 12 monthly instalments. If 2019/20 was instead treated as a 52-week year the gross rental debit for that lost week was predicted to be in excess of £1.1m. However, it was clear that those tenants on Universal Credit would not receive any benefit to pay for that week’s rent. In 2019/20 that was estimated as being 10% of tenants, but over time that was expected to increase to about 60% as Universal Credit continued to be rolled-out by the Government. It was explained that this was a nationwide problem and was under review by the Government. Pending further developments it was proposed and agreed that 2019/20 be treated as a 52-week year, to avoid any detriment to tenants.

The report also explained the other key changes in the HRA budget for 2019/20, and the full budget was presented as set out below.

HRA Account	**2018/19 (Forecast) £000**	**2019/20 Budget £000**	**2020/21 Budget £000**	**2021/22 Budget £000**
Income				
Housing Rents	(60,279)	(59,914)	(61,239)	(62,462)
Heating Income	(709)	(734)	(749)	(764)
PFI Credit	(23,600)	(23,586)	(23,374)	(23,374)
Other Income	(1,093)	(1,166)	(1,157)	(1,047)
Funding from General HRA Reserve	2,764	(10,352)	(21,510)	(8,164)
Total Income	**(82,917)**	**(95,752)**	**(108,029)**	**(95,811)**
Expenditure				
Northwards R&M & Management Fee	20,583	20,417	20,699	20,943
PFI Contractor Payments	35,322	33,418	36,227	31,356

HRA Account	2018/19 (Forecast) £000	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000
Communal Heating	766	838	855	872
Supervision and Management	5,270	5,118	5,172	5,243
Contribution to Bad Debts	1,206	604	925	1,258
Depreciation	15,184	17,279	17,460	17,611
Other Expenditure	1,317	1,525	1,347	1,282
RCCO	0	13,749	22,565	14,483
Interest Payable and similar charges	3,269	2,804	2,779	2,763
Total Expenditure	**82,917**	**95,752**	**108,029**	**95,811**
Total Reserves:				
Opening Balance	(99,939)	(102,703)	(92,351)	(70,841)
Funding (from)/to Revenue	(2,764)	10,352	21,510	8,164
Closing Balance	**(102,703)**	**(92,351)**	**(70,841)**	**(62,677)**

Decisions

1. To note the forecast 2018/19 HRA outturn surplus of £2.764m.

2. To approve the 2019/20 HRA budget and note the indicative budgets for 2020/21 and 2021/22.

3. To approve the proposed 1% decrease to dwelling rents (subject to the exceptions described above), and delegate authority to set individual property rents to the Director of Housing and the City Treasurer, in consultation with the Executive Member for Housing and Regeneration and the Executive Member for Finance and Human Resources,

4. To approve the proposal that where the 2019/20 rent is not yet at the formula rent level, the rent is revised to the formula rent level when the property is re-let.

5. To approve the proposed 2019/20 changes for communal heating charges as set out above, and as detailed in the appendix to the report.

6. To approve the proposed 2019/20 Northwards management fee as set out above.

7. To approve the proposed increase in garage rental charges as set out above.

8. To note the problems arising from the 53-week rent year that would have arisen in 2019/20, that such 53-week rent years have not been allowed for in the introduction of Universal Credit, and to agree not to pass the additional rent cost of the 53rd week onto tenants in 2019/20, with the cost of reduced rental income to be borne by the HRA in 2019/20.

Exe/19/20 Manchester Health and Care Commissioning - Adult Social Care Business Plan and Pooled Budget contribution 2019/20

The Director of Adult Social Care and the Chief Accountable Officer, Manchester Health and Care Commissioning presented the final proposals for the Manchester Health and Care Commissioning and the Adult Social Care' budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the pooled budgets and the directorate's revenue budget of £198.263m for 2019/20.

The report explained that Manchester Health and Care Commissioning (MHCC) was responsible for commissioning health, adult social care and public health services for MHCC had been operating a single planning, delivery and assurance process since April 2018. The report set out the priorities for MHCC in 2019/20 financial year and described progress made in 2018/19. The report also explained that the financial plan for 2019/20 reflected the Manchester Health and Care Locality Plan and Adult Social Care Business Plan for the period 2017-2020.

The report set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the directorate's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, Risk Register, Capital Strategy, and an update on transformational savings schemes.

The financial plans for the services were:

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Assessment/Support	6,140	-37	677	6,780
Care	41,122	-6,485	1,254	35,891
Commissioning	8,979	-871	0	8,108
Business Units	5,129	0	0	5,129
Learning Disability	51,989	-525	-585	50,879
Mental Health	23,192	-125	217	23,284
Public Health	37,275	10	0	37,285
Back Office	6,692	4,472	4,069	15,233
Inflation / National Living Wage	1,181	0	7,944	9,125
Demography	-	0	2,335	2,335
Total Pooled Budget	**181,700**	**-3,561**	**15,911**	**194,050**
Asylum	57	0	0	57
Commissioning	1,819	0	0	1,819
Safeguarding	2,337	0	0	2,337
Total Other Adult Social Care	**4,213**	**0**	**0**	**4,213**
Total	**185,913**	**-3,561**	**15,911**	**198,263**

It was noted that the Health Scrutiny Committee had recently considered and endorsed the plan (Minute HSC/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/21 Homelessness Business Planning 2019/20

The Director of Adult Services and Strategic Director (Development) presented the final proposals for the Homeless Services' budget for 2019/20 and forecast budgets for future years. The report set out the detailed breakdown and allocation of the service's revenue budget of £13.375m for 2019/20.

The report explained that the Homeless Partnership had co-produced the Homelessness Strategy for the City (2018-23). Derived from that Streategy, the three key priorities for the service were:
- homelessness as a rare occurrence: increasing prevention and earlier intervention at a neighbourhood level;
- homelessness as brief as possible: improving temporary and supported accommodation to be a positive experience; and
- the experience of homelessness to be a one-off occurrence: increasing access to settled homes.

There was a continuing and significant increase in the number of people presenting as homeless and who were rough-sleeping in the city so the service was under pressure. The budget proposals for 2019/20 therefore included investments to:
- help with the demand for dispersed accommodation continuing to rise at the current rate to 1,500 properties during 2019/20;
- support emergency accommodation numbers being stabilised at existing levels from work ongoing to meet need differently; and
- provide additional capacity for Homelessness support to reduce caseloads.

The report set out in detail how the elements of the financial and business plan had been developed. Appended to the report was a copy the service's 2019/20 Delivery Plan, Performance Plan, Equality Overview and Action Plan, Workforce Plan, and Risk Register.

The financial plan for the service was:

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Rough Sleepers / Outreach	359	0	0	359
Specialist Accommodation	249	0	0	249
Emergency Accommodation (B&B)	1,226	-440	1,990	2,776
Temporary Accommodation	2,631	0	1,300	3,931
Homelessness Management	384	0	0	384
Homelessness Assessment	1,216	0	0	1,216
Homelessness Prevention	1,929	0	1,300	3,229
Tenancy Compliance	194	0	0	194

Service Area	2018/19 Net Budget £'000	Savings & Recovery £'000	Growth & Pressures £'000	2019/20 Net Budget £'000
Housing Related Support	980	0	0	980
Asylum	57	0	0	57
Total	**9,225**	**-440**	**4,590**	**13,375**

It was noted that the Neighbourhoods and Environment Scrutiny Committee had recently considered and endorsed the plan (Minute NESC/19/09).

Decision

To note and accept the proposals set out in the business plan.

Exe/19/22 Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2019/20

The Council's Treasury Management policy complies with the revised CIPFA Code of Practice on Treasury Management. The Council adopted this in March 2010.

The Local Government Act 2003 and supporting regulations require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The proposed strategy for 2019/20 was based upon the views of Treasury officers on interest rates, informed by leading market forecasts. The Strategy covered:

- Prudential and Treasury Indicators
- Minimum Revenue Provision Strategy
- Treasury Management Policy Statement
- Treasury Management Scheme of Delegation
- Borrowing Requirement
- Borrowing Strategy
- Annual Investment Strategy

We noted the proposed Annual Investment and Borrowing Strategies set out in the report, and agreed to commend them to the Council.

Decisions

1. To commend the report to Council.

2. To delegate authority to the City Treasurer, in consultation with the Executive Member for Finance to approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget and submit such changes to Council.

Resources and Governance Scrutiny Committee

Minutes of the meeting held on Monday, 25 February 2019

Present:
Councillor Russell (Chair) – in the Chair
Councillors Ahmed Ali, Andrews, Barrett, Clay, Davies, Lanchbury, Kilpatrick, Moore, A Simcock and Watson

Also present:

Councillor Leese - Leader
Councillor N Murphy - Deputy Leader
Councillor S Murphy - Deputy Leader
Councillor Akbar - Executive Member for Neighbourhoods
Councillor Bridges - Executive Member for Children and Young People
Councillor Craig - Executive Member for Adults Health and Wellbeing
Councillor Richards - Executive Member for Housing and Regeneration
Councillor Stogia - Executive Member for Highways, Planning and Transport
Councillor Karney - Associate Executive Member,

Councillor Hacking - Chair of Communities and Equalities Scrutiny Committee
Councillor H Priest - Chair of Economy Scrutiny Committee
Councillor Stone - Chair of Children and Young People Scrutiny Committee

Apologies: Councillors B Priest, Rowles and Wheeler.

RGSC/19/17 Urgent Business

The Chair advised the Committee that she had received notification of an item of urgent business for consideration. This related to an amendment to the Council's budget, which had been proposed by Councillor Ellison, seconded by Councillor Wilson, and submitted to the Chief Executive in advance of the meeting. The Leader referred to the Committee the amendment as detailed below:-

- To allocate a budget of £1.5m over three years, to be phased £420k in the first year and £540k in both subsequent years, to increase the capacity of the City Council to tackle anti-social behaviour in our neighbourhoods, to be funded out of the proposed reimbursement of £1.5m to the general fund reserve budgeted for in 2018/19.

The Committee sought clarification as to what the additional funding would be used for and also an assurance that the proposed investment would be spent across all neighbourhoods in the city.

The Leader advised that the additional funding would allow for an additional seven case workers to tackle anti-social behaviour across all neighbourhoods in the city.

The amendment was put to the Committee and voted on and the Chair declared that it was endorsed unanimously.

Decision

The Committee endorses the amendment and commends that it be considered by Full Council at its meeting on 8 March 2019.

[Councillor Kilpatrick was not present during consideration of this item of urgent business].

RGSC/19/18 The Council's Budget 2019/20

Further to minute RGSC/19/9, the Committee considered a report of the Chief Executive and the City Treasurer which provided an update on the Council's financial position following scrutiny of the draft Budget proposals and Directorate Budget and Business Plan reports and accompanying delivery plans by all Scrutiny Committees.

The Committee received a statement from the Executive Member for Finance and Human Resources on the Executive's budget proposals and the key issues underlying the budget process. In doing so, he thanked all the Scrutiny Committees for their input into scrutinising the budget proposals to date within each Directorate Business Plan and thanked Officers for the work that had gone into developing the Business Plans. He also outlined the context of the proposed budget, in particular reiterating the challenges presented by funding reductions from national government.

The Chair then invited the other Scrutiny Chairs in attendance to bring to the Committees attention any concerns/issues that had arisen from their scrutiny of individual Business Plans. There were no financial issues or concerns raised, however the following salient points were made:-

- Further work was required in developing the Council's living wage policy in order to ensure all Manchester residents had a sufficient level of income;
- The investment into SEND provision was welcomed;
- As part of the Dedicated Schools Grant, any surplus within schools' budgets needed to be redistributed appropriately to ensure the funding was being used effectively; and
- Scrutiny members had been consistently impressed with the outcomes being achieved and the delivery of quality services from limited investment caused by national cuts..

The Leader acknowledged that there was inadequate funding nationally and locally for SEND provision and agreed that the funding that was available needed to be invested in improving the integration of SEND pupils into mainstream schools. He commented that that this would be for the Director of Education, Director of Children's Services, the Executive Member of Children and Young People and the Executive Member for Schools, Culture and Leisure to progress.

There were no questions from Committee Members on any of the Directorate Business Plans, which the Chair pointed out had all been scrutinised in various previous committees.

The Committee then received a statement from the Executive Member for Housing and Regeneration regarding the Housing Revenue Account calculations for 2019/20 to 2021/22 and its use. She advised of the challenges the Council faced in delivering it housing ambition in light of the 1% cut in rental charges for social housing tenants, the impact of Universal Credit and the increase in communal heating charges which the Council would look to place a cap on the passing of this cost onto tenants.

In relation to the Housing Revenue Account, some of the key points that arose from the Committees discussions were:-

- What would the consequences be of the Government failing to keep its promise to increase social rents by 1% and Consumer Price Index (CPI);
- The rent levels for social housing tenants, an element of the rent was apportioned to cover the cost of maintenance to the properties and that with the continued reduction in social rents, there was concern that if or when the condition of these properties deteriorated, there would not be adequate funding to address any necessary repairs or deliver a suitable maintenance programme;
- In connection to the above point, there was concern that in the future, this could lead to a rent increase of more than 1% in order to address, putting tenants who were already on a limited income under more financial difficulties; and
- What action would be taken to try and reduce the rental debts of tenants and ensure that those on Universal Credit receive their maximum housing payments.

The Executive Member for Housing and Regeneration advised that if Government did not keep their pledge, which was still subject to consultation, it would be extremely difficult for the Council to deliver its ambition to build council housing and support residents in the City. The Council had committed to looking at an Action Plan for its HRA and would also be looking at other ways to fund council house building in the city. The City Treasurer added that the Council also had a statutory requirement to ensure it operated within a balanced HRA account and if the policy on rent levels changed, this would take away the ability to invest in any more social housing and would require a review of the HRA and Business Plan as to what could be delivered.

The Executive Member for Housing and Regeneration acknowledged and agreed with the comments made around the consequence of a continued reduction in social housing rents and the ability to maintain these properties to a desired standard. She advised that it would be essential to involve tenants in any decisions around potential future rent increases or reduced maintenance programme.

The Executive Member for Housing and Regeneration agreed work was needed to be undertaken to ensure those tenants subject to Universal Credit received their maximum housing payments. The Executive Member for Finance and Human Resources added that the Council had agreed to invest a further £1.1 million to the Council’s welfare provision scheme to support residents that were struggling financially to pay their rents

Decision

The Committee:-

(1) Endorses the decisions of the Executive on 13 February 2019;
(2) Commends the proposed budget, with the agreed amendment that the Council allocates £1.5m over three years, to be phased £420k in the first year and £540k in both subsequent years, to increase the capacity of the City Council to tackle anti-social behaviour in its neighbourhoods, to be funded out of the proposed reimbursement of £1.5m to the general fund reserve budgeted for in 2018/19, for consideration by Full Council at its meeting on 8 March 2019; and
(3) Notes that the proposed budget is the best response that the Council could make to nine years of government austerity proposals that have been immoral, barbaric, unnecessarily cruel and economically illiterate.

Manchester City Council
Report for Resolution

Report to: Executive – 13 February 2019
Council – 8 March 2019

Subject: Capital Strategy and Budget 2018/19 to 2023/24

Report of: Chief Executive and City Treasurer

Summary

The purpose of the report is to present the 2018/19 capital programme and forward commitments, alongside the Capital Strategy for the City Council.

Recommendations

The Executive is recommended to:

1. commend the report to Council.

2. Note the capital strategy.

3. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the capital programme 2018/19 to 2023/24 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.

The Council is recommended to:

1. Approve the budget changes for the 2018/19 capital programme.

2. Approve the capital programme as presented in Appendix 3 (for £495.3m in 2018/19, £505.6m in 2019/20, £419.0m in 2020/21, £244.0m in 2021/22, £86.9m in 2022/23 and £39.0m in 2023/24) which will require prudential borrowing of £617.2m to fund non-HRA schemes over the five year period for which provision has been made in the revenue budget for the associated financing costs (within limits previously agreed).

3. Delegate authority to:

   a) The Chief Executive and Director of Highways in consultation with the Executive Member for Environment for the approval of the list of schemes to be undertaken under the Highways capital programme.

   b) The Chief Executive and Director of Highways to implement the Highways schemes in accordance with the Capital Approval process and after consultation with the Executive Member for Environment on the final details and estimated costs.

   c) The City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly up to a maximum of £5m in 2019/20 and then £5m per year thereafter.

d) The City Treasurer, in consultation with the Executive Member for Finance and Human Resources to accelerate spend from later years when necessary within the programme subject to resource availability.

e) The City Treasurer in consultation with Executive Member for Finance and Human Resources to agree and approve where appropriate:
   i. The programme of schemes for the delivery of the corporate asset management programme; and
   ii. Proposals relating to Corporate Compulsory Purchase Orders

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Wards Affected: Various

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The capital programme contributes to various areas of the economy including investment in public and private sector housing, education and children's social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards the strategy, notably investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The capital programme report as presented will require £617.6m (all non-HRA) of prudential borrowing over the five year period 2019/20 to 2023/24, all for Manchester City Council projects. Provision has been made in the proposed revenue budget for the associated financing costs, and for the revenue contributions to capital outlay (RCCO) which are forecast to be received from the General Fund and HRA.

Financial Consequences – Capital

For the City Council programme the latest budget for 2018/19 is £399.5m, of which £259.9m is forecast to be funded from borrowing. Across the forecast period 2019/20 to 2023/24, the budget is £1,110.0m, of which £617.6m is forecast to be funded from borrowing.

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Attachments

Appendix 1: Capital Approval Process flowchart
Appendix 2: Proposed Amendments to the Capital Budget
Appendix 3: Detailed Capital Programme 2018/19 – 2023/24
Appendix 4: Comparison of Capital Financing Requirement to External Debt and Internal Borrowing

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Report to the Executive 7 February 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to Council 2 March 2018 (Capital Strategy and Budget 2018/19 to 2022/23)
Report to the Executive 30 May 2018 (Capital Programme Monitoring 2017/18 – Outturn report)
Report to the Executive 25 July 2018 (Capital Programme Monitoring – Q1)

Report to the Executive 17 October 2018 (Capital Programme Monitoring – Q2)
Report to the Executive 17 October 2018 (Capital Update)
Report to the Executive 14 November 2018 (Capital Programme Update)
Report to the Executive 12 December 2018 (Capital Programme Update)
Report to the Executive 16 January 2019 (Capital Programme Update)

1 Introduction

1.1 As part of the suite of budget reports submitted on this agenda, Executive and Council are recommended to approve the updated Capital Strategy for 2018-24. This report details the latest position on the Strategy, the governance process and progress on delivery.

1.2 The capital strategy provides the long term context in which capital investment decisions are made and the governance for those decisions, and also gives a summary of the Council's approach to investments and treasury management strategy which is elsewhere on the agenda. The Council's capital strategy also meets the new requirements in the CIPFA Prudential Code.

2 Strategic Context

2.1 Manchester is an ambitious city with a strong track record of delivery through partnerships and effective strategic leadership, improving the quality of life for residents and delivering a vision of making Manchester a world class city. As encapsulated in the Our Manchester Strategy the vision is for Manchester in 2025 to be in the top flight of world class cities:

- with a competitive, dynamic and sustainable economy that draws on its distinctive strengths in science, advanced manufacturing, culture, creative and digital business, cultivating and encouraging new ideas;
- with highly skilled, enterprising and industrious people;
- that is connected, internationally and within the UK;
- that plays its full part in limiting the impacts of climate change;
- where residents from all backgrounds feel safe, can aspire, succeed and live well; and
- that is clean, attractive, culturally rich, outward looking and welcoming.

2.2 To be internationally competitive the City Council has grasped the need to:

- deliver on meeting the need to reduce dependency and improve the productivity outcomes for residents;
- embrace the need to be a low carbon exemplar;
- invest in, and strengthen, the council's existing economic and infrastructure asset base;
- ensure that there is a diverse housing offer for the city including homes that are affordable to those households on low and average incomes; and
- support the City's cultural and sporting offer.

2.3 The Our Manchester Strategy demands an integrated approach to the deployment of revenue and capital spend against a clear set of priorities. The development of a longer term, five-year, Capital Strategy forms a critical part of the City Council's strategic and financial planning from 2018/19.

2.4 The last few years have witnessed a number of significant developments that have had, and will continue to have, a major influence on the future shape and approach to capital investment within the City. These include the "Our Manchester" Strategy, the Manchester Residential Growth Strategy, the proposals to strengthen policies on Affordable Housing in the city, new commercial development opportunities, and delivering on the outcomes of the reviews of the Highways Estate, the Operational Built Estate and the ICT Estate.

2.5 The challenge for the future is to maximise the capital resources available to the Council in order to deliver the priorities for the City. This will require continued investment for transformation to define Manchester as an attractive place to live and further improve the quality of life for residents. The following will be important to achieving this:

- to support employment growth through a strengthening and diversification of the economic base and efficient use of land;
- investment in new and upgraded transport infrastructure including delivering the Highways Investment Programme
- to provide an expanded, diverse and affordable housing offer, creating the conditions to increase the supply of affordable and social housing, and that all new homes in the city are supported by good local public services and an accessible public transport infrastructure;
- to support new and expanded high quality primary and secondary school facilities for a growing population;
- securing investment for an internationally competitive cultural and sporting offer and sustaining core assets such as parks, leisure facilities and libraries for Manchester residents
- to support businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer; and
- to promote the role and continuing growth of the City Centre as a major regional, national and international economic driver.

2.6 Within a wider City Region and regional context the ambition is for Greater Manchester to become a financially self-sustaining region, sitting at the heart of the Northern Powerhouse with the size, the assets, the skilled population and political and economic influence to rival any global region.

2.7 Greater Manchester has been working hard, with Government, to turn that vision into a reality. The conurbation’s priorities around growth and reform are widely recognised to be distinctive, evidenced and wholly appropriate for the long term success of the area. The City Region is one of a few economic geographies capable of becoming a national engine of growth for the North and the UK as a whole, and in doing so, becoming a net contributor to the economy. Greater Manchester has made a strong, evidence-based case for the devolved, place-based management of local services, alongside innovative funding arrangements that remove unnecessary ring-fences to enable consistent prioritisation against Greater Manchester and Northern Powerhouse growth objectives.

2.8 Against this backdrop the new Greater Manchester Strategy “Our People, Our Place” sets out a Vision to make Greater Manchester one of the best places in the world to grow up, get on and grow old. The Plan sets out the ambitions for Greater Manchester and its population of 2.8 million. It covers health, well-being, work and jobs, housing, transport, skills, training and economic growth.

2.9 In early 2019 the Greater Manchester Combined Authority published a suite of strategic documents that translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. The Greater Manchester Spatial Framework, the Greater Manchester

Transport 2040 Implementation Plan and the forthcoming Greater Manchester Housing Strategy provide the frameworks for future investment in the conurbation.

2.10 In parallel with and in advance of the work at a Greater Manchester level the City Council has advanced new policy directions in the areas of housing affordability, climate change, and green and blue infrastructure all of which will strongly influence our investment plans going forward.

The 2018/19 Capital Programme

2.11 The capital programme has progressed in line with the agreed approach to capital spend and delivery in 2018/19, and as part of the overall five year capital strategy.

2.12 The £100m Highways Investment Fund has continued to deliver improvement and preventative works across the network. Further major, standalone Highways projects have commenced including the Manchester / Salford Inner Relief Route, the continued delivery of the Street Lighting PFI and Chorlton Cycle Scheme to provide further improvements to Highways infrastructure.

2.13 The refurbishment of Moss Side Leisure Centre was completed in November 2018, and the contract to deliver Abraham Moss Leisure Centre has been awarded with a project completion date of 2022. Proposals for the Parks Development Programme, seeking to deliver investment in Heaton Park, Wythenshawe Park and City wide parks are currently being developed to commence within financial year 2019/20.

2.14 The management contractor for the Town Hall Refurbishment project has now been appointed, and the expenditure incurred this year has enabled early works to be delivered and ensure the programme is maintained. The management contractor will now commence the review and letting of work packages in line with the overall procurement strategy for the project.

2.15 Works have commenced on the Factory site with programme completion scheduled for 2021 as part of the MIF Festival taking place that year.

2.16 A series of projects to increase housing stock, including affordable housing, have been delivered or are currently in progress including the Brunswick PFI, North Manchester New Build phases 1 and 2 and Ben Street. Further commercial housing opportunities are currently under development as part of proposals for the Northern Gateway programme with approval of funding currently being sought from Homes England to support delivery of elements of the overall scheme.

2.17 Capital investment through Education Basic Need funding has delivered additional school places across the city in this financial year. For example, the Beaver Road expansion which opened in September 2018 doubled intake at the school to 1,050 pupils, with other expansions being delivered across a number of further sites to meet pupil demand.

2.18 The potential for the ICT service to have a continued significant operational impact within the Council, on service delivery and for residents is clear. ICT have worked with services and partners throughout the last year to aid in transforming processes, improve information flows and enhance the user experience when using the Council's ICT services.

3 Development of the Capital Strategy

3.1 The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. The Strategy, therefore, sets out the longer term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

3.2 The Council makes a clear distinction between capital investments, where the achievement of strategic aims will be considered, alongside affordability; and treasury management investments, which are made for the purpose of cash flow management.

3.3 Council investments, as opposed to pure cash flow management decisions, will be made in line with the Capital Strategy priorities which are set out in this document. These decisions are clearly within the economic powers of the Council and there are strong governance arrangements that underpin the decision making. Longer term capital investment decisions will not be made purely on the basis of commercial decisions and chasing yield, however, inevitably some schemes will be financed all or in part from returns on investment. There may also be:

- externally funded programmes such as those for schools or the Factory;
- schemes funded from ring-fenced resources such as those within the Housing Revenue Account (HRA); or
- required investment from Council resources, including capital receipts, to support strategic priorities such as investment in the highways infrastructure, ICT, asset management and the refurbishment of the Town Hall.

3.4 All capital investment decisions will be underpinned by a robust business plan that sets out any expected financial return alongside the broader outcomes including economic and social benefits.

4 Governance

4.1 Capital expenditure is spent on the purchase or improvement of assets that have a long-term value to the Council, such as land and buildings. The Council and its residents receive a benefit from the capital expenditure invested in the assets for a long period of time (i.e. more than a year). It is the Council's policy to capitalise any expenditure, over a total value of £10,000, which fulfils this criteria.

4.2 The Council does not currently exercise any of the capitalisation flexibilities potentially available to it, such as the use of capital receipts to support specific revenue expenditure related to service transformation. If such flexibilities supported Council strategy, this position would be reviewed.

4.3 The Council has revised the approval process for capital expenditure, and the new process strengthens the decision making criteria highlighted above. This strategy seeks to detail the framework in which those decisions are made, and the principles to which the Council adheres, in the context of the current capital budget. Work is continuing on improving and streamlining the process, including strengthening the links to the key decision process, and to support stronger decision making on funding sources, for example Section 106 contributions, to ensure that the use of such sources are maximised.

4.4 The capital expenditure and investment decision making process is the governance framework used by the Council when making decisions relating to the capital programme. The process has five distinct stages to cover project initiation, project design and costs, democratic process, capital expenditure approval and monitoring/review. The process is shown diagrammatically at Appendix 1.

4.5 For any project seeking capital expenditure approval a business case must be drafted, covering:

- ***Strategic Fit:*** how the project links to the City Council's strategic priorities, social value, and any statutory requirements.
- ***Economic Value:*** what economic value the project will provide to the City, including social value.
- ***Financial Implications:*** funding model, with evidence of cost and capital and revenue implications
- ***Risk and Deliverability:*** timescale for delivery and identification of risks to the project, including legal issues.
- ***Outcomes to be delivered:*** what the project will achieve, and the benefits that will be realised.

4.6 The business cases must be agreed by the relevant directorate board, and approved by the Executive member for the relevant portfolio before being submitted into the process. Once submitted, the business cases are subject to peer review within the Council and then discussed by the Strategic Capital Board chaired by the City Treasurer. The Board will then make recommendations to members.

4.7 Throughout the decision making process the risks and rewards for each project are reviewed and revised, and form a key part of the monitoring of the capital programme. The Strategic Capital Board receive monthly updates from each directorate board on each board's part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and project development and development.

4.8 The governance process for approving capital investments is the same as that for the wider capital programme. As with any proposed capital expenditure, any investment is peer reviewed and the external and internal risks associated with the investment explored. Within the Council there are commercial and public sector professionals who are responsible for supporting investment proposals, and establishing investment structures which mitigate the risks such investments would create for the Council. There may be occasion when the nature of a particular proposal requires additional support, for example in performing due diligence or in supporting the creation of the business case. In these circumstances the Council will seek external advice.

4.9 The capital programme is monitored monthly, with quarterly reports to Executive. Within that monitoring, new approved capital investment proposals will be included. Once an investment has been made, it will be reviewed regularly. As a minimum it will be reviewed annually as part of the accounts process, which will take into account any material changes to the standing of the investment.

4.10 The capital budget is reported to Executive and Council as part of the budget process each year, and quarterly monitoring reports are provided to Executive. New projects are reported to Executive in capital update reports, detailing the aims of the project, the source of the funding and the funding required.

5 Changes to the Capital Programme

5.1 All new capital proposals since 2017/18 have been assessed against the criteria above, highlighted at paragraph 4.5. The projects put forward within this report meet the criteria for inclusion around strategic fit, i.e. the contribution to support priorities around growth, reform and place.

5.2 There are some minor amendments to the capital programme, which have been assessed through the checkpoint process and are summarised below. A summary of the schemes, funding and profile of spend can be found at appendix 2:

- Sunbank Lane S278 – externally funded works to create a bus stop and associated works.
- Sharston Roundabouts SCOOT analysis – creation of design works to support the development of a dynamic traffic signal system for the roundabouts. Funded by Highways England.
- Loan finance for the Contact Theatre – to support the redevelopment of the theatre with a proposed 10 year loan.
- GM Archives Web Portal – to replace the existing internet access to the GM Archives, funded by an external contribution from the National Archives.
- Additional Disabled Facilities Grant – to reflect in the capital budget the additional £0.9m Disabled Facilities Grant awarded by the Government.
- Booth St Car Park – to replace the expired entry and payment operating system at the car park, on an invest to save basis.

5.3 The Council's revised capital budget for the 2018/19 and the next five years is set out below, including the new proposals discussed above. The proposed programme constitutes the expected capital activity required by the Council to support the achievement of the Council's strategies and to maintain the operational estate.

6 Anticipated Additional Projects Within the Forecast Period

6.1 This report sets out the approved capital budget, with new projects to be approved as noted above. There are also pipeline schemes which may be submitted into the capital approval process during the forecast period of the capital programme. Details of these potential investments is contained within the programme information below.

6.2 The Capital Budget for 2018/19 and the following five years is set out below. It includes the expected capital activity required to support the achievement of the Council's strategies and to maintain the operational estate.

7 Proposed Capital Programme from 2019/20

7.1 The capital programme 2019/20 to 2023/24 comprises the continuation of the existing programme. For continuing schemes the position is based on that as of the end of December 2018 as reported in the Capital Monitoring report also on the agenda. The narrative below also includes details of potential capital projects which will be included in the budget at a later date subject to the submission of a successful business case.

7.2 The budget for 2018/19 is £399.5m. In addition there are £95.8m relating to schemes hosted on behalf of the Greater Manchester combined Authority leading to a combined total of £495.3m. The profile of capital expenditure will be updated as projects develop through the design stage or if the resource position changes. This is reported through to Executive in the regular Capital Update and Monitoring reports.

7.3 The programme is summarised in the table below.

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**	***Total 19/20-23/24***
	£m	£m	£m	£m	£m	£m	£m	*£m*
Manchester City Council Programme								
Highways	37.8	57.2	45.8	30.8			**171.6**	***133.8***
Neighbourhoods	11.7	25.5	13.1	8.8	5.7	2.5	**67.3**	***55.6***
Strategic Development	123.0	127.1	81.7	36.2	4.9		**372.9**	***249.9***
Town Hall Refurbishment	11.1	24.4	67.7	103.3	65.9	29	**301.4**	***290.3***
Housing – General Fund	27.8	24.7	30.5	8.7		7.5	**99.2**	***71.4***
Housing – HRA	16.1	30.1	48.7	36.6	4.9		**136.4**	***120.3***
Children's Services (Schools)	31.9	39.0	62.3	4.1			**137.3**	***105.4***
ICT	6.1	11.3	14.6	10.1	5.5		**47.6**	***41.5***
Adults, Children's and Corporate Services	134.0	19.8	16.6	5.4			**175.8**	***41.8***
MCC TOTAL	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**	**1,110.0**
Projects carried out on behalf of Greater Manchester	95.8	146.5	38.0				**280.3**	***184.5***
TOTAL	**495.3**	**505.6**	**419.0**	**244.0**	**86.9**	**39.0**	**1,789.8**	**1,294.5**

7.4 Further details of the major schemes included are set out in this report and a full list of the projects and the budget split by financial year is shown at appendix 3.

7.5 The proposals in this report are for the draft capital programme from 2019/20. The programme will be updated at the May meeting of the Executive to reflect the final outturn position for 2018/19. The programme will change as projects develop, and this will be reported to members as and when it is required. Current examples of some of the factors that will influence such changes include more detailed feasibility work on the timings of the major Highways schemes planned being conducted, the conclusion of the RIBS Stage 3 design for the Town Hall which will influence the project's cash flow, and the completion of work on the affordable housing programme which will then need to be reflected in the budget.

8 Highways

8.1 The Highways capital programme consists of the investment in the City's highways network, including work on bridges, cycle paths and bus priority lanes. The programme is forecast to be £133.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

8.2 The Highways Maintenance Investment Programme (£71.7m) will continue. The programme will seek to implement longer term preventative maintenance measures, which would result in the Council's highways assets being improved and reducing maintenance costs. This includes works to drainage systems, large patching works, carriageway works and repairs to footpaths.

8.3 The Bridge Maintenance project (£7.2m) will continue to ensure that the Council's bridge assets across the highways network are maintained according to statutory guidelines.

8.4 The project widening A57 Hyde Rd (£3.9m) will continue, increasing the span of a disused railway bridge to allow removal of a pinch point, which currently reduces the number of traffic lanes from four to two. Heavy traffic congestion, particularly at peak times and journey times will both be reduced.

8.5 The Cycle City schemes (£4.3m) aim to provide a high-quality network of dedicated cycle routes across Manchester, encouraging people to make short journeys in a healthy and inexpensive way and reduce the environmental impact of private car use.

8.6 The Manchester/Salford Inner Relief Road project (£5.7m) will continue, to address traffic congestion at the Dawson St/RegentRd/Trinity Way/Water St junction and five adjacent junctions, to improve capacity and enhance the performance of the wider relief road.

8.7 The project at Great Ancoats Street (£8.1m) will reduce barriers and restrictions for pedestrians on the Street and adjacent areas of the inner relief route. The project will also include more safe crossing places for pedestrians and improved signage to aid road users.

8.8 Works at the Mancunian Way junction with Princess Road (£7.7m), funded through the Department for Transport's National Productivity Investment Fund, will continue, improving and continuing capacity by creating signalled junctions.

8.9 The Green Bridge project (£2.6m) will continue and will provide a critical public access route from Wythenshawe to the transport interchange at Airport City.

8.10 Investment in School Crossing Patrols (£2.3m) will progress, with a programme to provide permanent highways improvements to improve road safety outside schools and reduce risks at existing crossings. The programme of works will focus on those schools which have crossings which were rated red and amber.

8.11 The Public Realm programme (£2.2m) will support the maintenance and development of the Council’s public realm assets.

8.12 The Street Lighting Private Finance Initiative (PFI) project (£13.7m) will deliver the procurement and installation of modern, state of the art, low energy light emitting diode (LED) street lighting technology. Once operational the scheme is planned to provide revenue savings due to reduced energy charges, and lower maintenance costs for the Council’s street lighting.

Potential Future Investment

8.13 Highways Services anticipate that investment will be required around the Mayfield site, the Northern and Eastern Gateway sites (including the Etihad Campus) and the Airport City Enterprise Zone, as these are regeneration priorities for the Council. There may also be a need for infrastructure changes to support autonomous vehicles, 5G connectivity and utilities upgrades.

8.14 There are also potential funds from the GM Mayor’s Fund for cycling and walking facilities, which the Council intends to bid for. If successful, this may require a further review of the delivery of the Highways programme to reduce disruption.

9 Neighbourhoods

9.1 The Neighbourhoods capital programme includes the investment required to support the City’s neighbourhoods and well-being, such as libraries and leisure centres. The programme is forecast to be £55.6m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Environment and Operations	1.3	7.4					**8.7**
Leisure	9.7	17.5	13.1	8.8	5.7	2.5	**57.3**
Libraries	0.7	0.6					**1.3**
Total Neighbourhoods	**11.7**	**25.5**	**13.1**	**8.8**	**5.7**	**2.5**	**67.3**

Environment and Operations

9.2 As part of the waste and street cleaning contract, a loan will continue to be available to the contractor to upgrade vehicles (£5.9m), including to make them clean air compliant, on a spend to save basis. The loan will be repaid through reduced service costs.

Leisure

9.3 The Parks Investment Programme (£20.5m) will focus on three key objectives, specifically the development of the Hall, Stables and Lake Hubs at Heaton Park, the development of Wythenshawe Park including restoration of the Hall, and improvements to the quality of the community and local parks, green spaces and allotments across Manchester.

9.4 Investment will continue Abraham Moss leisure centre (£13.9m). These works will reduce revenue costs associated with the upkeep of the building, and provide long-term savings to the Council.

9.5 The Manchester Football Hubs programme (£13.0m) is intended to provide football facilities including pitches, changing rooms and education suites at several sites across the City.

Potential Future Investment

9.6 Investment across the Council's estate will be required, specifically the sports facilities with regional and national status such as the Manchester Aquatic Centre and the National Cycle Centre. Work is being undertaken on an options appraisal for New Smithfield Market, to determine the likely cost.

9.7 Works across the parks estate, beyond the Parks Development Programme linked to the lifecycle replacement of park assets, may also be required - these items contribute to the successful delivery of the parks strategy and the Council will seek to maximise the use of external contributions to support this.

10 Strategic Development

10.1 Strategic Development also includes the programme for the Council's property assets, and investment in neighbourhood development and cultural facilities. . The programme is forecast to be £249.9m between 2019/20 and 2023/24, as shown in the table below, and the primary schemes within the programme are also detailed below:

	2018/19 budget	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**Total**
	£m	£m	£m	£m	£m	£m	**£m**
Culture	26.7	55.2	40.2	4.7			**126.8**
Corporate Property	49.2	50.7	29.8	15.6			**145.3**
Development	47.1	21.2	11.7	15.9	4.9		**100.8**
Total Strategic Development	**123.0**	**127.1**	**81.7**	**36.2**	**4.9**		**372.9**

Culture

10.2 The continuing Factory project (£100.2m) will create a cultural facility within the St John's area of the City Centre. The total budget for the Factory is c.£130m, including £78m of government funding, £7m of National Lottery funding and £5m from fundraising.

Corporate Property

10.3 The Asset Management Programme (£28.8m) will ensure that the Council's assets, including its elite assets, are well-maintained.

10.4 The Strategic Acquisitions budget (£10.3m) will provide funding for the Council to acquire key sites throughout the city, provided they become available, which can further the aims and objectives of the corporate plan particularly with regard to housing and regeneration.

10.5 The continuing Carbon Reduction Programme (£9.8m) will be used to explore schemes which can support the Council's aim of reaching zero carbon emissions by 2038. Such schemes may include the use of combined heat and power plant, solar photovoltaic panels, and the use of LED lighting within the Council's estate.

10.6 The Civic Quarter Heat Network (£19.5m) project aims to provide a heat network throughout the Council owned property estate in and around the Town Hall complex and to developments owned by the private sector in the vicinity of the Town Hall. This will reduce energy costs, and also help achieve the City's aim of reducing carbon emissions.

10.7 Public realm works at Lincoln Square (£1.2m), supporting the wider redevelopment of the area, will provide a more distinctive identity for the square.

10.8 The continuing Estates Transformation plan (£12.5m), based on the stock condition surveys commissioned by the Council to ensure buildings fit for purpose and estate rationalised. This includes the refurbishment of Alexandra House. In addition to this programme the Hammerstone Road Depot project (£14.0m) will continue, investing in the depot to allow the Council to consolidate all depots into one site. This investment will allow other sites to be released, and reduce the maintenance costs associated with these sites.

Development

10.9 The Sustaining Key Initiatives (£13.6m) investment provides the Council with the capacity to intervene to ensure key commercial and mixed use development priorities are secured in the city. It is expected that any intervention would be done primarily on an investment basis.

10.10 Following the acquisition of Central Retail Park at Great Ancoats Street as part of the Eastern Gateway programme, there is a budget (£2.0m) for remediation works ahead of future development. The project to fund remedial works at New Islington Marina (£3.3m) will also continue, to rectify the issues with the public promenade, water run-off, boardwalks and other areas.

10.11 The Northern Gateway investment plan (£21.1m) will lead to significant residential growth in the neighbourhoods of New Cross, Lower Irk Valley and Collyhurst through land assembly and the provision of core infrastructure, with the regeneration completed with Far Eastern Consortium who are the Council's joint venture partner.

10.12 The Medieval Quarter Public Realm (£1.5m) scheme will continue, providing public realm improvements in the north of the city centre around the River Irwell, Manchester Cathedral, Cheetham's and Victoria Station.

10.13 Further loan support for Manchester College (£10.0m) will continue, in addition to the c. £17.6m forecast to be provided in 2018/19, to enable the first phase of the College's expansion.

Potential Future Investment

10.14 Potential future investment within Strategic Development is likely to focus on the existing and new regeneration priorities for the Council. At this juncture there are no detailed proposals for additional investment proposals within the city centre, the Northern Gateway and the Eastern Gateway, although there is likely to be investment in Piccadilly Gardens. The February Executive will receive a report on the next phase of development at the Etihad Campus which may include a requirement for additional resources. Finally, work is underway to develop proposals for the transformation of Wythenshawe Town Centre which will take several months to develop, evaluate and consult upon.

11 Town Hall Refurbishment

11.1 The Town Hall and Albert Square Refurbishment programme is for the full refurbishment and upgrade to modern standards of the Town Hall and the associated costs for Albert Square. The programme is currently forecast to be £290.3m between 2019/20 and 2023/24 with planned spend currently £24.4m in 2019/20.

11.2 The amount of spend planned each year will be updated once the project reaches RIBA stage three design. Cost consultants are currently working on the cost planning, and to provide assurance on the costs. The management contractor has been appointed, and work can now begin on the delivery plan for the initial construction phases of the programme. Intrusive survey works are continuing, with mitigation measures being undertaken as and when required.

12 Housing – General Fund

12.1 The Housing Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025 including 6,400 affordable homes. Of the latter 3,000 are either delivered, on site or committed to be delivered by March 2021 with a further minimum of 3,400 to be delivered by March 2025 through use of council land, Registered Social Landlord (RSL) partner resources and investment capacity in the HRA. Achieving this target is dependent on the government funding in these areas being available. A more detailed report on Affordable Housing will be going to Executive in the next few months.

12.2 The Housing – General Fund capital programme includes housing regeneration schemes, such as the Council's housing Private Finance Initiative (PFI) schemes. It also includes funding for disabled facilities and energy efficiency schemes. The programme is forecast to be £71.4m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

12.3 Funding remains set aside within the programme for commercial and residential acquisitions (£9.0m) which will support the existing Brunswick and Collyhurst schemes. Similarly funding is available for the acquisition of properties relating to regeneration in West Gorton (£1.4m), and for potential commitments from historical CPOs.

12.4 Major adaptations funding is available (£20.3m) to assist in works to make social rented properties suitable for disabled residents.

12.5 The West Gorton Regeneration Programme is currently being delivered. Further investment in residential development will be undertaken, and regeneration in the area (£3.5m) will focus on the provision of a new community park and a new nursery and community facility.

12.6 Further investment plans include support for the development of Extra Care accommodation within Manchester (£2.4m) and acquisitions to support the regeneration of the Moston Lane area (£7.5m).

12.7 The regeneration of the Ben Street area (£7.4m) of Ancoats and Clayton will continue to deliver new housing.

12.8 Funding is available, through the government's Marginal Viability Fund, to support the delivery of new homes on the New Victoria (£10.1m) site by addressing infrastructure works, and to create a healthcare centre at Bowes Street (£3.3m).

Potential Future Investment

12.9 A business plan to support the development of an Extra Care site at Russell Road is being prepared. A report to the March Executive will set out proposals for the delivery of affordable housing in the city.

13 Housing – Housing Revenue Account (HRA)

13.1 The Housing – HRA capital programme consists of the investment in the Council's public sector housing estate, including acquisitions and capital works on existing Council housing assets. The programme is forecast to be £120.3m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

13.2 Provision is also made in the budget to reflect the delivery of new works in future years that will support the ongoing 30-year HRA asset management plan (£78.3m). The funds will be used to maintain the Decent Homes Standard within Manchester's housing stock and, in addition, will support innovative climate change investment; essential health and safety works including the installation of sprinklers in multi storey blocks; public realm environmental works; and, where appropriate, it will support estate regeneration and re-modelling.

13.3 The programme includes funding for the ongoing regeneration works in Collyhurst (£24.1m), including proposals for new social housing new builds and land assembly linked to the Northern Gateway.

13.4 Work will continue on the North Manchester New Builds project Phase 2 (£11.2m) across a number of sites in North Manchester.

13.5 The land assembly programme around Parkhill Avenue (£4.3m) will continue to facilitate the regeneration of the area.

Potential Future Investment

13.6 Future investment proposals are likely to include a further phase of the North Manchester New Build programme, and the creation of an extra care development.

14 Children's Services (Schools)

14.1 The Children's Services capital programme is predominantly focused on the building of new schools, to meet school place demand, and investment in the existing school estate. The programme is forecast to be £105.4m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

14.2 There is potential budget provision for a new high school (£39.3m) at Matthews Lane to increase the number of secondary places in the central and eastern area of the City. Initial works have been completed on site and the project is currently paused pending both a review of the secondary places required in the context of the Council's Basic Need funded works and the Government's Free School programme. It will only progress if Government funding is forthcoming to cover the cost of the scheme and at this stage the budget will be included in the programme.

14.3 The Council will receive no Basic Need grant in 2019/20 or 2020/21. The existing unallocated grant is c. £49.3m, of which it is currently forecast c. £23.4m will be allocated to provide places for Special Educational Needs (SEN / Alternative Provision (AP) places across the City. The number of additional SEN/AP places required is being reviewed alongside the policy to integrate places into mainstream schools where possible. The remaining funding will be used to meet emerging place pressures.

14.4 Further to this, the Council has been awarded a separate grant (£3.0m) to invest in the provision of education places for children and young people with SEN and disabilities.

14.5 A Government grant-funded schools maintenance programme (£11.3m), to help maintain the Council's school assets, is included within the budget. Officers expect this funding stream to continue, however the annual budgets will be revised once confirmation of the level of funding is received.

Potential Future Investment

14.6 Discussions are ongoing with the DfE to identify a site for a Dean Trust/UK Fast secondary academy, which would create further secondary places within the city. Work is also being undertaken to develop the place planning strategy for 2020 onwards, which will include the impact of future residential development such as the Northern Gateway, the Government's free school programme, potential sites for school development or expansion, and population projections.

15 Information and Communication Technology (ICT)

15.1 The ICT capital programme provides investment to the Council's ICT estate. The programme is forecast to be £41.5m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

15.2 The ICT Investment Plan (£41.5m) will continue. The programme of works will include measures aimed at replacing communication room technology, and the implementation of the data centre network.

15.3 Other works to be supported include the implementation of disaster recovery works, replacement of out-of-support systems for social work casework and for telephony, and the roll out of assistive technology to support the delivery of adult social care.

15.4 It is expected that some of this budget may need to be transferred to revenue, depending on the type of works required, and this decision can only be made when the appropriate ICT solution has been identified. Such transfers will be proposed on a case by case basis, and reported to members through the regular capital increases reports.

Potential Future Investment

15.5 It is anticipated that there will be investment in full fibre networks, and 5G networks and connectivity, which will improve connectivity across the Council's estate and with partners. However, the fast developing nature of technology means that further future investment needs may be identified.

16 Adults, Children's and Corporate Services

16.1 The Adults, Children's and Corporate Services capital programme provides investment for the health and social care work of the City Council, and strategic investments. The programme is forecast to be £41.8m between 2019/20 and 2023/24 and the primary schemes within the programme are detailed below.

16.2 To provide integrated health and community services it is proposed to invest in a new facility at the Gorton District centre (£21.4m). This is on an invest to save basis with the income from the leases to partners providing the funding to repay the build costs.

16.3 Financial support for the development of project with Health Innovation Manchester (£14.3m), to conduct research on life science sub-sectors of health and medical technologies, will continue.

16.4 There is c. £5.6m available to fund the purchase of equity in car parking facilities at the Airport, which will support the development of the Airport and potentially provide a return to the City Council.

17 Projects carried out on behalf of Greater Manchester

17.1 The capital programme for projects carried out on behalf of Greater Manchester consists of schemes where Manchester is acting as the lead body but the expenditure relates to projects across the conurbation. The programme is currently forecast to be £184.5m between 2019/20 and 2023/24 based on existing budget approvals.

17.2 The budget relates to the Housing Investment Fund which the City Council has hosted because the Combined Authority did not have the borrowing powers for economic regeneration that were required. Governance of the Fund and decisions regarding the Fund are made by the Combined Authority. For the City Council decisions to invest are key decisions but only by virtue of the Council hosting the fund.

17.3 Those borrowing powers have now been granted to the Combined Authority and work is underway to novate the Fund across to the Authority. Due to the complexity of some of the existing loan agreements, the Council will be asked by the Combined Authority to retain some of the investments and the Authority will fund the Council so there will be no cost to do so.

17.4 Once the novation has been completed the budget for projects held on behalf of Greater Manchester will be reduced significantly. This is expected to happen in the early part of the 2019/20 financial year.

18 Asset Management Planning

18.1 The current approved capital programme includes several asset management streams, for the current operational estate, housing, highways and schools.

18.2 The Executive Member Estates Board is responsible for the strategic direction and decision making for the operational estate, including estate asset management and estates transformation. These decisions support the activity contained within the Asset Management Programme which forms part of the Council's approved capital budget.

18.3 The Council also holds significant assets on the basis of expected future regeneration projects. Work is undertaken to ensure that these assets are maintained until such time as the regeneration project can come to fruition. This may mean that the asset, such as land, could gain or lose value in the intervening period, but the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

19 Capital Financing

19.1 The Council has several funding streams available to fund capital expenditure. Alongside external grants and contributions that the Council may be eligible to receive, the Council can also use revenue funding, capital receipts and prudential borrowing.

19.2 Capital receipts are generated through the sale of assets. These receipts are ring-fenced, under legislation, to fund capital expenditure and cannot be used to fund the revenue budget.

Restrictions around funds

19.3 The capital financing strategy is set in the context of restrictions around certain capital funds, some statutory and some at the Council's discretion.

19.4 The Housing Revenue Account (HRA) is a restricted fund and can only be used to fund capital expenditure on HRA assets.

19.5 The Council also operates the following fund restrictions:

- Housing capital receipts (both Housing General Fund and Housing Revenue Account) are reserved for use on new Housing projects;
- General Fund capital receipts will be used in the first instance to support the Asset Management Programme.
- Grants received will be used for the specific purpose intended even if the terms of such grants are not restrictive, unless alternative use promotes the same aims.

Prudential Borrowing

19.6 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR), and will create revenue costs through interest costs and minimum revenue provision (MRP).

19.7 Where the Council has funded expenditure through borrowing it is required to make a minimum revenue provision towards the repayment of the debt. This ensures that the revenue cost of repaying the debt is spread over the life of the asset similar to depreciation. The Council's MRP policy is contained within the Treasury Management Strategy Statement.

19.8 The estimated financing costs for the capital programme and existing debt have been calculated as part of the budget process. It has been ensured that the proposed programme and the existing debt liabilities are affordable within the existing revenue budget.

19.9 In line with the Prudential Code requirements the Local Authority must have explicit regard to option appraisal and risk, asset management planning, strategic planning, and the achievability of the forward plan.

19.10 Borrowing decisions are taken separately for the General Fund and HRA. Each must determine whether proposals requiring borrowing meet the requirements outlined above although for the HRA it is depreciation rather than MRP which is incurred.

19.11 It is proposed that the City Council capital programme, excluding the projects carried out on behalf of Greater Manchester, for 2019/20 is funded as follows:

Fund	Housing Programmes		Other Programmes	**Total**
	HRA	Non-HRA		
	£m	£m	£m	**£m**
Borrowing		0.5	152.6	**153.1**
Capital Receipts		10.2	14.6	**24.8**
Contributions		2.5	24.8	**27.3**
Grant	0.3	10.7	105.3	**116.3**
Revenue Contribution to Capital Outlay	29.8	0.8	7.0	**37.6**
Grand Total	**30.1**	**24.7**	**309.3**	**359.1**

19.12 As noted above the projects carried out on behalf of Greater Manchester will be funded via borrowing and capital receipts received as loans mature. This borrowing is provided by central Government and does not impact on the Council's capital financing budget.

19.13 Prudential borrowing of up to £617.6m over the five-year period will be needed to support the City Council programme in line with the new schemes and previous planning and profile approval. The breakdown over 2019-2024 is:

- 2019/20 - £153.1m
- 2020/21 - £179.7m
- 2021/22 - £174.5m
- 2022/23 - £79.6m
- 2023/24 - £30.7m

a. The Housing HRA programme will not require prudential borrowing at this stage but it is likely that projects will be brought forward that will require HRA borrowing which will be reported to members.

b. The General Fund programme requires £617.6m of prudential borrowing which includes:

Scheme	**£m**
Highways Investment Plan	59.6
Bridge maintenance	7.2
Hyde Road (A57) Pinch Point Widening	0.8
Velocity	0.6
Congestion Target Performance	0.2
Mancunian Way and Princess Parkway NPIF	3.2
Princess Rd Safety Review	0.5
School Crossing Patrols	1.8
Public Realm	0.4
Street Lighting PFI	13.7
M56 works	0.2
Bus Priority schemes	0.3
Waste Contract	5.9
Parks Investment Programme	12.5
Indoor Leisure Provision at Moss Side and Abraham Moss	13.9
FA Hubs	4.2
Libraries investment	0.5
The Factory	1.6
Strategic Acquisitions	1.4
Hammerstone Road	14.0
Carbon Reduction	9.8
Civic Quarter Heat Network	19.5
Lincoln Square	1.2
Estates Transformation	12.5
Sharp Project	0.6
One Central Park	0.6
Sustaining Key Initiatives	13.6
Eastern Gateway	5.3
Northern Gateway	21.1
St. Peter's Square	0.4
Manchester College	10.0
Refurbishment of the Town Hall and Albert Square	290.3

Scheme	£m
Regeneration of Ben St	7.4
ICT Investment Plan	41.5
Gorton integrated health development;	21.4
BioMedical Investment	14.3
Manchester Airport Car Park investment	5.6

19.14 A number of these schemes will be on an invest to save basis, and will generate savings. The remainder are affordable within the existing capital financing budget.

19.15 Further “spend to save” investment opportunities may arise and delegated authority is given to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget accordingly. The delegation is restricted to an annual limit of £5,000,000. This is on the understanding that the costs of borrowing (interest and principal) of any additions are financed in full by additional income, revenue budget savings, or cost avoidance.

19.16 The proposed funding for the programme across the forecast period is shown below:

	2018/19 budget £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m	Total £m
Grant	70.7	116.3	84.0	19.5	2.4	0.8	**293.7**
External Contribution	17.4	27.3	20.0	3.7			**68.4**
Capital Receipts	24.7	24.8	45.6	11.5		7.5	**114.1**
Revenue Contribution to Capital Outlay	26.8	37.6	51.7	34.8	4.9		**155.8**
Borrowing	259.9	153.1	179.7	174.5	79.6	30.7	**877.5**
Total	**399.5**	**359.1**	**381.0**	**244.0**	**86.9**	**39.0**	**1,509.5**

19.17 The funding forecast shown above includes use of capital receipts already received and a forecast of future receipts based on officer’s views on when surplus assets may be sold and the likely market valuations. These forecasts are subject to change which may affect the future funding position.

19.18 Work will continue to confirm the position for the capital programme from 2018/19 to 2023/24 and the final capital budget will be reported to Council in March. This will include the effect of any changes in the delivery of the current programme in 2018/19. It is expected that any changes will be a change to the profiling rather than a change to the estimated total funding requirement for the City Council.

20 Investments and Liabilities

20.1 The Council’s capital programme and balance sheet contain investments made by the Council to support the achievement of strategic aims. A key part of the monitoring arrangements is reviewing these investments to ensure that they continue to perform as expected. With the increased national focus on council investment activities the Capital Strategy has been expanded to take a broader overview and to include relevant investments and liabilities.

Approach, Due Diligence and Risk Appetite

20.2 Council investments are managed in line with the Ministry of Homes, Communities and Local Government (MHCLG) investment guidance principles of security, liquidity and yield. The application of these principles will differ when considering capital investment rather than treasury management investment.

20.3 There is a clear distinction between capital investments, where the achievement of strategic aims will be considered and treasury management investments which are made for the purpose of cash flow management. The risk appetite for these two distinct types of investment may differ given the difference in expected outcomes.

20.4 The Council focuses its capital investments in line with its strategic objectives and priorities of the City and will take a more rounded view taking into account the economic and regeneration benefits to the city as well as security and liquidity. This may lead to a higher appetite for risk for the delivery of the City's priorities and broader economic gains. Each investment is considered on its own merit in line with the Checkpoint process and the risks, mitigations and benefits carefully assessed.

20.5 Schemes could include lending to organisations with low credit ratings if the appropriate security over the organisations assets can be provided, or guarantees from parent companies or organisations given. A key consideration for any capital investments is that income received from the investment covers the capital financing costs incurred by making it.

Summary of material investments, guarantees and liabilities

20.6 The Council has the current historic investments on the balance sheet as at 31st March 2018:

	Value as at 31/3/18 £m
Long-term Debtors	205.6
Long-term Investments	142.4
Investment Property	415.0
Total	**763.0**

20.7 The long-term debtors represent loan finance provided by the Council to other parties, and include the loans to Manchester Airport (£83.2m), Public Finance Initiative prepayments (£23.3m), and Housing Investment Fund loans (£39.6m) which are held on behalf of Greater Manchester. These figures include the short-term element of the debtor. These loans are regularly reviewed, and would be impaired if there was a risk of default. Some of the loans, such as the Housing Investment Fund investments are provided under guarantee from other organisations which will form part of the loan reviews.

20.8 The long-term investments are equity investments held by the Council, and include Manchester Airport (£112.4m), Destination Manchester (£10.2m) which is the Council's investment in Manchester Central, and Matrix Homes (£4.8m). These investments are valued on an annual basis.

20.9 Investment property is held by the Council on the basis that it will generate a revenue return, for example land at Manchester Airport and at Eastlands. Some of the properties held are being held for regeneration purposes but provide a return and therefore are shown as investment property. Investment properties are independently valued on an annual basis.

20.10 The current capital programme contains the following expected capital investments, which will create either long-term debtors, investments or investment properties, to be made:

- Waste Contract - providing a loan to the contractor to upgrade vehicles;
- Civic Quarter Heat Network - creation of a heat network through a Council-owned company;
- Private Sector Housing Equity Loans - loans to residents to provide housing support;
- Manchester Airport Strategic Investment and Car Parks - financial support to the Airport to develop the business;
- Manchester College Loan - loan to support College’s expansion;
- Band on the Wall Loan - loan to support the development of the venue;
- Biomedical Investment - loan to support the development of health innovation; and
- Housing Investment Fund – *note, as detailed above, that elements of this project will transfer to the Combined Authority in the near future, with some retained by the City Council.*

There may be other projects which become capital investments, such as strategic acquisitions or land acquisitions under the Eastern and Northern Gateways but which are intended to ultimately be used for regeneration purposes.

20.11 As stated above all investments are scrutinised via the capital approval process with independent advice sought to assess risk where required. They are also reported to Executive for approval where appropriate ll proposed investments are scrutinised through the Council’s Capital Approval Process and where appropriate reported to Executive for approval. To assess the risk the Council may seek independent external advice including on any legal issues.

20.12 Where investments provide a return either through interest or dividends this can be used to support the revenue budget. In 2018/19 it is forecast that c. £53.3m of dividends will be used within the revenue budget. Where investments have been funded by borrowing the income received is used to fund the capital financing costs, for example the Airport Strategic Loan.

20.13 All investments are monitored regularly with the frequency based on risk, and at a minimum all investments will be reviewed once a year. Any material changes to the status of any investment will be reported to the Treasurer at the earliest opportunity.

Commercial Investments

20.14 The Council does not make commercial investments, to the extent that it does not make investments purely to make a financial return. Where the Council has and does make capital investments, it is for strategic or regeneration purposes.

21 Treasury Management

21.1 The nature and scale of the Council's capital programme means that it is a key factor in the Council's treasury management, including the need to borrow to fund capital works. The treasury management strategy for the Council is the subject of a separate report on the agenda.

21.2 There is a clear link between capital investment activities and treasury management activities, particularly with regard to how the Council will repay debt and the impact on the revenue budget. The principles of this are described in more detail below.

Long Term Planning (inc. MRP)

21.3 The treasury management strategy provides the framework within which treasury management decisions will be made during the financial year, but the consequences of those decisions will be longer lasting. In particular with regard to debt planning, treasury management decisions are made with the impact on future treasury management decisions in mind.

21.4 Under the Prudential Code, the Council must make an annual revenue provision for the repayment of debt, called the minimum revenue provision (MRP). This provision spreads the cost of repaying the debt for an asset over the useful economic life of that asset. It is important to consider MRP when making capital investment decisions as it is a real cost and will impact the revenue position.

21.5 The Council has regard to MHCLG's guidance on the application of MRP, and applies the principles. The Council applies the following asset lives when calculating MRP, unless there are asset-specific reasons for deviating from them – such deviation will be guided by qualified valuers recommendations on maximum useful lives:

- Land: 50 years
- Property: 50 years
- Highways: 25 years
- ICT: 5 years

21.6 When making debt decisions the Council takes into consideration the forecast MRP in each future financial year, and in the current market environment will seek to match debt repayments to MRP in each of those years as this is the most prudent approach.

21.7 The current long term forecast for external debt compared to the Capital Financing Requirement, and therefore the level of forecast internal borrowing, is shown at appendix 4. The external debt peaks as the forecast capital programme period ends, although this will change as further projects are brought forward in the future. A table showing the forecast profile for the Capital Financing Requirement is shown below:

£'m	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Opening CFR	1,237.1	1,488.5	1,630.0	1,776.3	1,911.1	1,947.1
Borrowing	259.9	153.2	179.7	174.5	79.6	30.7
Additional long	12.4	16.4	1.1	0.8	0.9	0.8

term liabilities						
MRP	-20.9	-28.1	-34.5	-40.5	-44.5	-48.9
Closing CFR	**1,488.5**	**1,630.0**	**1,776.3**	**1,911.1**	**1,947.1**	**1,929.7**

21.8 Based on the revenue and capital budget forecasts, it is anticipated that the current level of internal borrowing (being the difference between the CFR and external debt) will begin to reduce. This is because both revenue and capital budgets assume the use of reserves, reducing the cash available to use instead of external borrowing.

21.9 The principles which the Council will follow when taking new debt, and how the debt portfolio will be managed, is set out in the Treasury Management Strategy Statement. This Treasury Management Strategy Statement also includes the authorised limit and operational boundary for external debt, based on the forecast debt requirement.

Risk appetite, key risks and sensitivities

21.10 For treasury management investments and debt the Council's risk appetite is extremely low with security of funds the primary concern. The Council seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have debt options available at all times.

21.11 The role of the treasury management teams is to balance the risks associated with the management of cash, acknowledging that they cannot all be mitigated, and within that balance seek optimum performance in terms of liquidity and return.

21.12 The key sensitivities for the Council are changes in market conditions and the availability of debt. The team responsible for the treasury management function are in regular contact with brokers in the market and liaise regularly with the Council's treasury management advisors to review market conditions and debt opportunities to explore whether the Council could make use of them.

21.13 The Council's treasury management position and activities will be reported to Audit Committee throughout the financial year with any changes in market conditions or the Strategy highlighted to members.

22 Skills and Knowledge

22.1 The approval process and the requirements of the business case needed provides the framework for the knowledge needed to pursue a capital project. Information, advice and training on the requirements of the process is available for officers and Members. The Council has experience of delivering capital projects through the Capital Programme team and uses this experience to evaluate new proposals. All proposals are reviewed by the Senior Management Team, including the City Treasurer.

22.2 Capital investments are reviewed under the same approval process and receive input from appropriately qualified and skilled Finance professionals**.**

22.3 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations is in force. For the Council to continue to invest as before it is required to opt up to become a "Professional Status" counterparty. To achieve this status those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment, and the existing team fulfils this requirement. The Council currently holds "Professional Status" with the market investments it uses.

23 Conclusions

23.1 This capital strategy provides an overview of how capital expenditure, capital financing and treasury management activity support service delivery, and should be taken in context with the capital budget and the treasury management strategy statement.

23.2 The proposed capital programme described within the report is affordable within the existing revenue budget based on the estimated capital financing costs associated with delivering the programme.

23.3 There are risks associated with the delivery of the capital strategy, specifically regarding delays to the programme or treasury management risks. Measures are in place to mitigate these risks through both the Strategic Capital Board and the treasury management strategy. Reports will be provided throughout the year to Council, Executive and other relevant committees providing updates on the progress of the capital programme and the risks associated with its delivery and funding.

24 Key Policies and Considerations

(a) Equal Opportunities

24.1 The proposals have been drawn up in awareness of Council policy on equality.

(b) Risk Management

24.2 The capital programme is based on forecast costs and funding, and as such there are risks to achieving the programme from external factors such as shortage of labour or materials, alongside market risks such as price fluctuations and interest rate changes. The Strategic Capital Board, and associated Portfolio Boards for each part of the programme, are tasked with regular monitoring of costs, delivery, quality, and affordability, to help manage and mitigate these risks.

(c) Legal Considerations

24.3 None in this report.

Capital Approval Process and Governance **Appendix 1**

APPROVALS

CP1 Sign off by Portfolio Board and Executive Member

Subject to Strategic Capital Board Approval and Member sign off

CP2 Strategic Capital Board and Exec Members sign off to progress to CP4 spend subject to checks at CP3

Portfolio Boards approve Individuals Schemes against larger programmes

CP3 Finance Approval Only

CP4

CP5

ACTIVITY

CP1 Initial Business Case Approval

Business Case to detail

- strategic fit
- economic, social and fiscal outcomes
- financial implications
- risk/deliverability

CP2 Detailed BC Approval

Update of CP1 including firming up on:

- Deliverables
- Costs/Benefits
- Outcomes
- Timelines

CP3 Funding Review

Detailed Finance checks to confirm funding streams

Allows formal Key Decision process to complete

Will enter capital budget at this point

CP4 Approval to Spend

Subject to approval at CP2 and CP3 then spend can commence, otherwise may require further clarification

No requirement for meeting/sign off (*unless further clarity*)

CP5 Project Review

Undertake project review to confirm outcomes, identify best practice and learn lessons.

Monitoring

(PMO Lead)

Ongoing during delivery, showing progress against targets

Reports to:

Porfolio Boards, Strategic Capital Board, SMT/Executive Members, Executive

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Appendix 2 – amendments to the capital budget introduced as part of this report

Amendments introduced to the capital budget 6 February 2019					
Department	**Scheme**	**Funding**	**2018/19**	**2019/20**	**Total**
			£'000	**£'000**	**£'000**
Highways	Sunbank Lane	External Contribution	21	30	51
Highways	Sharston Roundabouts SCOOT	External Contribution	34	6	40
Neighbourhoods	Contact Theatre loan	Borrowing	200		200
Neighbourhoods	Booth St Car Park	External Contribution	16		16
Neighbourhoods	Booth St Car Park	Borrowing	132		132
Neighbourhoods	GM Archives web portal	External Contribution	10	118	128
Private Sector Housing	Disabled Facilities Grant	Grant	878		878
Total Budget Increase Requests			**1,291**	**154**	**1,445**

Please note that the additional budgets for 2017/18 are not included in the Capital Monitoring report for quarter 3, as they are new approvals.

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Appendix 3 – the proposed Capital Programme Budget

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Highway Programme						
Highways Planned Maintenance Programme						
Planned Highways Maintenance Programme	221	432	75	0	0	0
Drainage	344	970	1,312	0	0	0
Large Patching repairs	2,000	1,088	1,281	1,313	0	0
Carriageway Resurfacing	5,400	5,287	7,190	7,535	0	0
Footway schemes	1,498	2,200	2,893	2,957	0	0
Carriageway Preventative	4,500	4,139	8,282	9,044	0	0
Bridge Maintenance	0	1,200	2,982	3,018	0	0
Other Improvement works	86	1,983	4,769	4,833	0	0
Project Delivery Procurement	0	757	1,681	1,703	0	0
Highways Stand Alone Projects Programme						
Ardwick Grove Village Parking	0	0	20	0	0	0
Didsbury Village Tram Stop Traffic Mitigation	0	0	18	0	0	0
Section 106 Highways work around Metrolink	0	0	47	0	0	0
Barlow Moor Road	0	27	0	0	0	0
Etihad Expansion - Public Realm	0	59	0	0	0	0
Velocity	155	567	0	0	0	0
Cycle City Phase 2	230	4,291	0	0	0	0
Safe Routes to Loreto High School	28	22	0	0	0	0
Safe Routes to Schools	22	58	0	0	0	0
Congestion Target Performance	20	215	0	0	0	0
Piccadilly Undercroft Gating	1	7	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
20mph Zones (Phase 3)	20	80	370	0	0	0
ITB Minor Works	10	93	0	0	0	0
Flood Risk Management - Hidden Watercourses	0	49	0	0	0	0
Flood Risk Management - Higher Blackley Flood Risk	0	41	0	0	0	0
Hyde Road (A57) Pinch Point Widening	106	1,766	2,123	0	0	0
Manchester/Salford Inner Relief Road (MSIRR)	6,032	5,553	100	0	0	0
Great Ancoats Improvement Scheme	453	3,065	5,015	0	0	0
Mancunian Way and Princess Parkway NPIF	438	4,479	3,197	0	0	0
Cycle Parking	19	10	0	0	0	0
Shadowmoss Rd / Mossnook Rd	10	16	0	0	0	0
Birley Fields Campus improvements	0	0	34	0	0	0
GMCRP Multi Sites	13	0	0	0	0	0
Princess Rd Safety Review	100	477	0	0	0	0
School Crossings	286	1,403	924	0	0	0
Kingsway Speed Cameras	13	11	0	0	0	0
Green Bridge at Airport City	425	1,341	1,216	0	0	0
Public Realm	833	1,426	400	400	0	0
Street Lighting PFI	11,050	12,000	1,731	0	0	0
Didsbury West S106	53	10	0	0	0	0
S106 Whalley Grove	50	25	0	0	0	0
A56 Liverpool Road	10	70	0	0	0	0
A56 Chester Road	16	35	0	0	0	0
M56	0	148	0	0	0	0
Pay and Display Machines	0	924	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
North Manchester Hospital Residents Parking	0	9	0	0	0	0
Parking Schemes	0	558	120	0	0	0
Sunbank Lane S278	21	30	0	0	0	0
Sharston Roundabout SCOOT	34	6	0	0	0	0
SEMMMS PROGRAMME						
Ringway Road Highway Imp Scheme	0	0	0	0	0	0
Local Roads (temp SEMMMS A6 Stockport)	2,962	0	0	0	0	0
SEMMMs A6 to Manchester Airport	78	0	0	0	0	0
Bus Priority Package Programme						
Bus Priority Package - Oxford Road	215	137	0	0	0	0
Bus Priority Package - Princess Street/Brook Street	50	103	0	0	0	0
Total Highways Programme	**37,802**	**57,167**	**45,780**	**30,803**	**0**	**0**
Environment Programme						
Waste Reduction Measures	320	1,471	0	0	0	0
Waste Contract	523	5,910	0	0	0	0
Blackley Crematorium Heat Exchanger	107	0	0	0	0	0
Christmas Market Electrical Equipment	137	0	0	0	0	0
Smart Litter Bins	258	0	0	0	0	0
Leisure Services Programme						
Parks Programme						
Hollyhedge Park Drainage IMPS	9	0	0	0	0	0
Heaton Park Pay & Display	464	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
PIP - Park Events Infrastructure	274	52	0	0	0	0
PIP - Unallocated	97	2,566	4,045	5,699	5,699	2,462
Smedley Lane Playing Fields S106	19	0	0	0	0	0
Somme 100 Year Memorial	130	0	0	0	0	0
Painswick Park Improvement	30	0	0	0	0	0
Heaton Park Southern Play Area	360	120	0	0	0	0
Didsbury Park Play Area S106	50	0	0	0	0	0
Wythenshawe Park Sport Facilities S106	152	0	0	0	0	0
Northenden Riverside Park	50	25	0	0	0	0
Age Friendly Benches	18	0	0	0	0	0
King George V Park	93	0	0	0	0	0
Leisure & Sports Facilities						
Arcadia (Levenshulme) Leisure Centre	10	0	0	0	0	0
National Taekwondo Centre	7	0	0	0	0	0
Indoor Leisure - Abraham Moss	675	1,709	9,076	3,107	0	0
Indoor Leisure - Moss Side	5,597	25	0	0	0	0
FA Hubs	0	13,000	0	0	0	0
Boggart Hole Clough - Visitors Centre	535	0	0	0	0	0
Mount Road S106	12	0	0	0	0	0
Event Seating Basketball	18	0	0	0	0	0
Velodrome Track	713	0	0	0	0	0
Contact Theatre loan	200	0	0	0	0	0
MAC - Booth St Car Park	148	0	0	0	0	0
Libraries and Info Services Programme						

Project Name	**2018/19 Proposed Budget**	**2019/20 Proposed Budget**	**2020/21 Proposed Budget**	**2021/22 Proposed Budget**	**2022/23 Proposed Budget**	**2023/24 Proposed Budget**
	£'000's					
Relocation of Manchester Visitor Info Centre (MVIC)	5	54	0	0	0	0
GM Archives Web Portal	10	118	0	0	0	0
Central Library Wolfson Award	37	0	0	0	0	0
Library Refresh	4	0	0	0	0	0
Roll Out of Central Library ICT	220	0	0	0	0	0
Refresh of Radio Frequency Identifier Equipment	12	0	0	0	0	0
Newton Heath Library	168	0	0	0	0	0
Withington Library Refurbishment	200	0	0	0	0	0
Open Libraries	42	450	0	0	0	0
Total Neighbourhoods Programme	**11,704**	**25,500**	**13,121**	**8,806**	**5,699**	**2,462**
Cultural Programme						
First Street Cultural Facility	12	0	0	0	0	0
The Factory (Build)	24,365	55,253	38,078	4,725	0	0
The Factory (Public Realm)	2,344	0	2,106	0	0	0
Corporate Estates Programme						
Asset Management Programme	9,026	11,840	9,551	7,385	0	0
Strategic Acquisitions Programme	8,731	4,331	3,000	3,000	0	0
Town Hall Complex Transformation Programme	67	0	0	0	0	0
Hammerstone Road Depot	932	7,083	6,940	7	0	0
Heron House	14,380	0	0	0	0	0
Registrars	1,400	0	0	0	0	0
Carbon Reduction Programme	100	8,500	1,290	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Civic Quarter Heat Network	6,500	11,500	4,000	4,000	0	0
Lincoln Square	0	0	1,200	0	0	0
Brazennose House	678	0	0	0	0	0
Estates Transformation	0	215	0	585	0	0
Estates Transformation - Hulme District Office	4,680	234	0	0	0	0
Estates Transformation - Alexandra House	559	6,961	3,848	632	0	0
The Gallery Café	0	0	0	0	0	0
Ross Place Refurbishment	2,120	0	0	0	0	0
Development Programme						
Development Programme - East Manchester						
The Space Project - Phase 2	1,085	0	0	0	0	0
The Sharp Project	0	600	0	0	0	0
Digital Asset Base - One Central Park	9,443	620	0	0	0	0
Sustaining Key Initiatives	0	0	5,000	8,600	0	0
New Smithfield Market	32	468	0	0	0	0
Beswick Community Hub - Highway and Public Realm	2	0	0	0	0	0
Eastern Gateway - Central Retail Park	1,312	2,000	0	0	0	0
Eastern Gateway - New Islington Marina	1,800	3,332	0	0	0	0
Hall and Rogers	346	0	0	0	0	0
Development Programme - North Manchester						
Collyhurst Police Station liabilities	844	0	0	0	0	0
Northern Gateway	3,875	2,300	6,675	7,275	4,875	0
Development Programme - City Centre						
Hulme Hall Rd Lighting	39	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
			£'000's			
ST Peters Square	602	400	0	0	0	0
Medieval Quarter Public Realm	488	1,500	0	0	0	0
City Labs 2	3,675	0	0	0	0	0
Manchester College	17,600	10,000	0	0	0	0
Development Programme - Enterprise Zone						
Airport City Power Infrastructure (EZ)	2,440	0	0	0	0	0
Development Programme - Stand Alone Projects						
Digital Business Incubators	3,500	0	0	0	0	0
Total Strategic Development Programme	**122,977**	**127,137**	**81,688**	**36,209**	**4,875**	**0**
Town Hall Refurbishment Programme						
Our Town Hall refurbishment	11,060	24,386	67,743	103,251	65,914	29,039
Total Town Hall Refurbishment Programme	**11,060**	**24,386**	**67,743**	**103,251**	**65,914**	**29,039**
Private Sector Housing Programme						
Brunswick PFI (PSH)						
Brunswick PFI Land Assembly	2,460	1,726	737	0	0	0
Collyhurst (PSH)						
Collyhurst Regeneration	10	173	3,700	0	0	0
Collyhurst Environmentals	65	62	0	0	0	0
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	0	0	505	565	0	0
Collyhurst Land Assembly Ph1	20	63	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Collyhurst Land Acquisitions Ph2	0	210	799	0	0	0
Eccleshall Street - 3 Sites	0	500		0	0	0
Housing Investment Model		0				
Site Investigation and Early Works HIF Pilot Sites	286	141	155	0	0	0
Miles Platting PFI (PSH)						
Miles Platting PFI Land Assembly	255	632	0	0	0	0
Private Housing Asist Citywide Programme						
Disabled Facilities Grant	8,062	7,929	6,200	6,200	0	0
Toxteth St CPO & environmental works	73	141	0	0	0	0
Bell Crescent CPO	0	482	0	0	0	0
Private Sect Housing Standalone Projects						
HCA Empty Homes Cluster Phase 2	90	801	891	0	0	0
Empty Homes Scheme (s22 properties)	0	2,000	0	0	0	0
Redrow Development Programme						
Redrow Development Phase 2 onward	300	0	0	0	0	0
West Gorton (PSH)						
West Gorton Compensation	0	4	0	0	0	0
West Gorton Ph 2A Demolition & Commercial Acquisitions	10	490	904	0	0	0
Armitage Nursery & Community Facility	1,215	2,160	0	0	0	0
Private Sector Housing - Stand Alone Projects						
HMRF	56	50	40	0	0	0
Collyhurst Acquisition & Demolition (Overbrook & Needwood Close)	5	0	661	0	0	0
Extra Care	3,555	2,445	0	0	0	0
Moston Lane Acquisitions	0	0	0	0	0	7,500

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Equity Loans	0	0	397	0	0	0
West Gorton Community Park	514	1,336	0	0	0	0
Ben St. Regeneration	5,574	556	6,877	0	0	0
Homelessness	5,000	0	0	0	0	0
Marginal Viability Fund - New Victoria	0	1,827	6,263	1,984	0	0
Marginal Viability Fund - Bowes Street	0	929	2,385	0	0	0
Rent to Purchase	203	0	0	0	0	0
Total Private Sector Housing Programme	**27,753**	**24,657**	**30,514**	**8,749**	**0**	**7,500**
Public Sector Housing						
Northwards - External Work						
Charlestown - Victoria Ave multistorey window replacement and ECW - Phase 1	0	8,000	7,190	0	0	0
External cyclical works phase 3a	10	0	22	0	0	0
Collyhurst Environmental programme	312	0	0	0	0	0
Ancoats Anita St and George Leigh external cyclical works ph 3b	28	0	0	0	0	0
Harpurhey Lathbury & 200 Estates external cyclical works ph 3b	-25	0	38	0	0	0
Environmental works	113	0	0	0	0	0
Harpurhey Shiredale Estate externals	0	0	15	0	0	0
Moston Miners Low Rise externals	16	0	4	0	0	0
Newton Heath Limeston Drive externals	0	0	6	0	0	0
Renewal of 4 automatic pedestrian gates at Victoria Square	0	45	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
External cyclical works ph 3b Harpurhey - Jolly Miller Estate ph 3b	54	0	32	0	0	0
External cyclical works ph 3b Moston Estates (Chauncy/Edith Cliff/Kenyon/Thorveton Sq)	7	0	2	0	0	0
External cyclical works ph 3b Ancoats Smithfields estate	262	10	0	0	0	0
External cyclical works ph 4b Charlestown Chain Bar low rise	178	0	36	0	0	0
External cyclical works ph 4b Charlestown Chain Bar Hillingdon Drive maisonettes	1	0	4	0	0	0
External cyclical works ph 4b Crumpsall Blackley Village	131	0	0	0	0	0
External cyclical works ph 4b Higher Blackley South	281	0	31	0	0	0
External cyclical works ph 4b Newton Heath Assheton estate	93	0	16	0	0	0
External cyclical works Ph 4b Newton Heath Troydale Estate	792	0	74	0	0	0
External cyclical works Ph 5 New Moston (excl corrolites)	66	0	31	0	0	0
Environmental improvements Moston corrolites	267	0	0	0	0	0
Charlestown - Victoria Ave multistorey replacement door entry systems	0	0	18	0	0	0
ENW distribution network phase 4 (various)	0	219	0	0	0	0
Dam Head - Walk up flates communal door renewal	212	172	0	0	0	0
Delivery Costs	955	909	827	0	0	0
Northwards - Internal Work						
2/4 Blocks Heating replacement with Individual Boilers	24	0	122	0	0	0
Lift replacement / refurbishment programme	75	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Fire precaution works - installation of fire seal box to electric cupboards on communal corridors in retirement blocks	6	0	0	0	0	0
Decent Homes mop ups ph 9 and decent homes work required to voids	212	0	0	0	0	0
One offs such as rewires, boilers, doors, insulation	377	0	0	0	0	0
Whitemoss Road and Cheetham Hill Road Local Offices - Improvements	202	0	0	0	0	0
Ancoats - Victoria Square lift replacement	0	265	0	0	0	0
Aldbourne Court/George Halstead Court/Duncan Edwards Court works	274	81	0	0	0	0
Boiler replacement programme	786	25	261	0	0	0
Kitchen and Bathrooms programme	0	1,788	94	0	0	0
Harpurhey - Monsall Multis Internal Works	0	2,385	85	0	0	0
Various - Bradford/Clifford Lamb/Kingsbridge/Sandyhill Court Internal Works	0	2,471	108	0	0	0
Collyhurst - Mossbrook/Roach/Vauxhall/Humphries Court Internal Works	0	2,791	106	0	0	0
Decent Homes mop ups phase 10 and voids	583	500	219	0	0	0
One off work - rewires, boilers, doors	100	200	0	0	0	0
Fire precautions multi storey blocks	0	1,078	1,000	0	0	0
Installations of sprinkler systems - multi storey blocks	0	2,380	221	0	0	0
Replacement of Prepayment Meters in High Rise Blocks	0	0	20	0	0	0
Delivery Costs	1,352	1,502	246	0	0	0
Northwards - Off Debits/Conversions						
Bringing Studio Apartments back in use	40	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Delivery Costs	13	0	0	0	0	0
Homeless Accommodation						
Improvements to Homeless accommodation city wide	54	0	201	0	0	0
Plymouth Grove Women's Direct Access Centre	22	0	0	0	0	0
Improvements to Homeless Accommodation Phase 2	280	723	210	0	0	0
Delivery Costs	136	78	45	0	0	0
Northwards - Acquisitions						
Northwards Acquisitions	134	0	0	0	0	0
Stock Acquisitions	32	0	0	0	0	0
Delivery Costs	29	0	0	0	0	0
Northwards - Adaptations						
Adaptations	1,000	720	0	0	0	0
Northwards - Unallocated						
Northwards Housing Programme unallocated	0	1,033	17,697	21,988	0	0
Retained Housing Programme						
Collyhurst Maisonette Compensation & Dem	0	89	0	0	935	0
West Gorton Regeneration Programme						
West Gorton PH2A Low & High Rise Demolition	10	16	0	0	0	0
Future Years Housing Programme						
Collyhurst Estate Regeneration	0	700	8,695	10,235	1,841	0
Collyhurst Regen - Highways Phase 1	-97	0	190	97	1,394	0
Collyhurst Regen - Churnett Street	0	0	0	0	790	0
Collyhurst Regen - Needwood & Overbrook acquisition / demolition	3	0	124	0	0	0
Willert Street Park Improvements	36	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
North Manchester New Builds	6,358	163	0	0	0	0
North Manchester New Builds 2	75	500	10,700	0	0	0
North Manchester New Builds 3	250	0	0	0	0	0
Parkhill Land Assembly	0	0	0	4,270	0	0
Fire precautions multi storey blocks	0	1,200	0	0	0	0
Brunswick PFI HRA	30	0	0	0	0	0
Total Public Sector Housing (HRA) Programme	**16,149**	**30,043**	**48,690**	**36,590**	**4,960**	**0**
Children's Services Programme						
Basic Need Programme						
Cheetham Academy	-14	0	0	0	0	0
Briscoe Lane Academy	127	0	0	0	0	0
Stanley Grove - contribution to PFI	13	0	0	0	0	0
Dean Trust Ardwick	15	0	0	0	0	0
Ardwick PRU	40	0	0	0	0	0
ULT William Hulme	47	0	0	0	0	0
Lytham Rd	0	200	0	0	0	0
Manchester Health Academy expansion	3,242	0	0	0	0	0
Co-op Academy expansion	3,741	0	0	0	0	0
St Margaret's C of E	54	0	0	0	0	0
St Matthews RC	20	0	0	0	0	0
Plymouth Grove Refurbishment	4,574	427	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Propose d Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Beaver Rd Primary Expansion	4,547	115	0	0	0	0
Lily Lane Primary	3,331	136	0	0	0	0
St. James Primary Academy	2,848	112	0	0	0	0
Crossacres Primary School	1,902	111	0	0	0	0
Ringway Primary School	1,337	60	0	0	0	0
Webster Primary Schools	1,859	111	0	0	0	0
St. Chrysostom's	160	0	0	0	0	0
Camberwell Park Specialist School	65	0	0	0	0	0
Piper Hill Special School	224	0	0	0	0	0
SEND Programme	101	8,264	15,150	0	0	0
Basic need - unallocated funds	235	20,032	44,007	1,138	0	0
Universal Infant Free School Meals (UIFSM) - Unallocated	335	0	0	0	0	0
Schools Maintenance Programme						
Abraham Moss - Hall Heating	-4	0	0	0	0	0
Chorlton CofE Primary Rewire	16	0	0	0	0	0
Moston Lane Primary	8	0	0	0	0	0
Wilbraham Primary Roof	59	0	0	0	0	0
Abbott Primary School Fencing	94	0	0	0	0	0
Crowcroft Park PS-Rewire	531	0	0	0	0	0
Pike Fold Community Primary - Ground Stabilisation - Survey artificial play area	17	0	0	0	0	0
Charlestown Primary Defects	31	0	0	0	0	0
All Saints PS	-1	0	0	0	0	0
Collyhurst Nursery School	2	0	0	0	0	0
Armitage CE Primary	135	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Higher Openshaw Comm School - Renew Boiler	101	0	0	0	0	0
Crowcroft Park PS - Roof Repairs	53	0	0	0	0	0
Northenden Primary School - Part Reroof	42	0	0	0	0	0
Abbot Community Primary - Ext Joinery Repair	248	0	0	0	0	0
St Mary's PS - Joinery Repairs	98	0	0	0	0	0
Sandilands PS - Joinery Repairs	181	0	0	0	0	0
Lancasterian ID Secure Lobby	38	0	0	0	0	0
Cheetwood PS - Rewire	499	0	0	0	0	0
Pike Fold Community Sch - Repairs to air handling units	53	0	0	0	0	0
Button Lane PS - Boiler Installation	60	0	0	0	0	0
Schools Capital Maintenance -unallocated	0	5,338	3,000	3,000	0	0
Education Standalone Projects						
Paintpots	31	0	0	0	0	0
Community Minded Ltd	28	0	0	0	0	0
Tiny Tigers Ltd-Cheetham Children Centre	79	0	0	0	0	0
Early Education for Two Year Olds - Unallocated	57	0	0	0	0	0
Gorton Youth Zone	538	962	0	0	0	0
Greenheys Toilets	67	0	0	0	0	0
Healthy Pupil Capital Funding	0	263	0	0	0	0
Special Educational Needs grant	38	2,871	164	0	0	0
Total Children's Services Programme	**31,902**	**39,002**	**62,321**	**4,138**	**0**	**0**
ICT Capital Programme						

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
ICT						
Solaris	11	0	0	0	0	0
ICT Infrastructure & Mobile Working Programme						
Citrix 7.6 Migration	3	0	0	0	0	0
Mobile Device Refresh	52	0	0	0	0	0
PSN Windows 2003	88	26	0	0	0	0
Data Centre UPS Installation	0	10	0	0	0	0
Core Switch Firmware	28	0	0	0	0	0
New Social Care System	2,039	509	0	0	0	0
End User Computing	796	90	0	0	0	0
Core Infrastructure Refresh	533	0	0	0	0	0
Income Management	1	0	0	0	0	0
Customer & Bus. Relationship Management System	1	0	0	0	0	0
Corporate Reporting Tool (Business Objects)	14	0	0	0	0	0
Internet Resilience	104	50	0	0	0	0
New Rent Collection System	70	14	0	0	0	0
Communications Room Replacement Phase 2	100	500	3,929	500	0	0
Care Leavers Service	91	0	0	0	0	0
Microsoft Enterprise Agreement Licensing renewal	227	0	0	0	0	0
Data Centre Network Design and Implementation	1,949	1,289	0	0	0	0
ICT Investment Plan	0	8,836	10,673	9,600	5,482	0
Infrastructure						
Wider Area Network Redesign	26	0	0	0	0	0

Project Name	2018/19 Proposed Budget	2019/20 Proposed Budget	2020/21 Proposed Budget	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000's					
Total ICT Programme	**6,133**	**11,324**	**14,602**	**10,100**	**5,482**	**0**
Corporate Capital Programme						
ONE System Developments	23	25	0	0	0	0
Phase 1 Implementation - Locality Plan Programme Office	602	272	0	0	0	0
Integrated Working - Gorton Health Hub	1,400	10,150	8,627	2,619	0	0
Airport Strategic Investment	125,000	0	0	0	0	0
BioMedical Investment	7,000	5,500	6,100	2,700	0	0
Band on the Wall	0	200	0	0	0	0
Manchester Airport Car Park Investment	0	3,700	1,900	0	0	0
Total Corporate Capital Programme	**134,025**	**19,847**	**16,627**	**5,319**	**0**	**0**
Total Manchester City Council Capital Programme	**399,505**	**359,063**	**381,086**	**243,965**	**86,930**	**39,001**
Projects carried out on behalf of Greater Manchester						
Housing Investment Fund	95,805	146,522	37,951	0	0	0
Total GM projects	**95,805**	**146,522**	**37,951**	**0**	**0**	**0**
Total CAPITAL PROGRAMME	**495,310**	**505,585**	**419,037**	**243,965**	**86,930**	**39,001**

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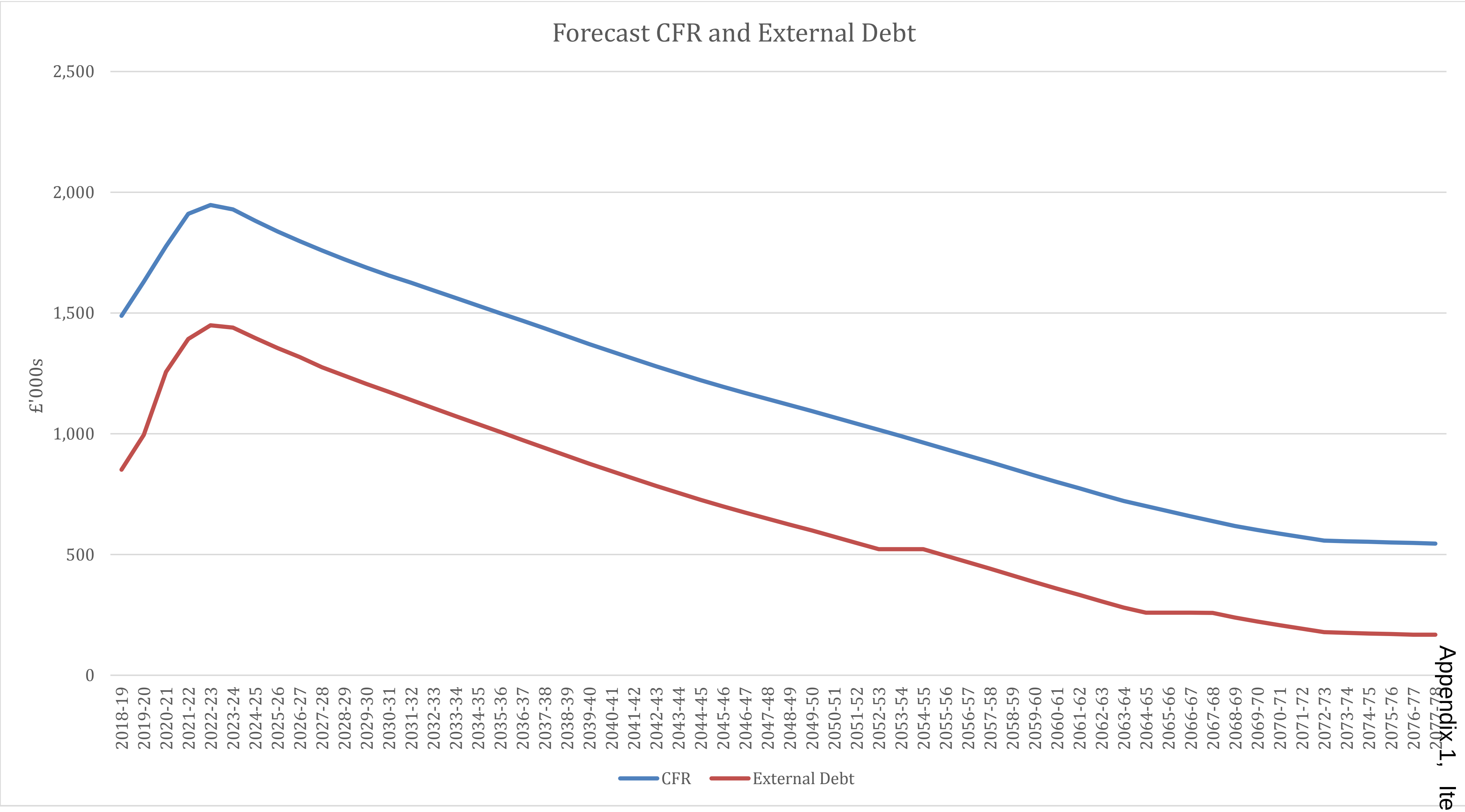
Appendix 4 – Capital Financing Requirement and Forecast External Debt



Appendix 1, Item 4i

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Manchester City Council
Report for Resolution

Report to:	Executive – 13 February 2019 Resource and Governance Scrutiny Committee – 25 February 2019 Council – 8 March 2019
Subject:	Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy 2019/20
Report of:	City Treasurer

Summary

To set out the proposed Treasury Management Strategy Statement and Borrowing Limits for 2019/20 and Prudential Indicators for 2019/20 to 2021/22.

Recommendations

The Executive is requested to:

1. commend the report to Council.
2. Delegate authority to the City Treasurer, in consultation with the Executive Member for Finance, to:
   - approve changes to the borrowing figures as a result of changes to the Council's Capital or Revenue budget; and
   - submit these changes to Council.

The Resource and Governance Scrutiny Committee is requested to:

1. commend the report to Council.

The Council is requested to:

1. Approve the proposed Treasury Management Strategy Statement, in particular the:
   - Prudential and Treasury Indicators listed in Appendix A of this report
   - MRP Strategy outlined in Appendix B
   - Treasury Management Policy Statement at Appendix C
   - Treasury Management Scheme of Delegation at Appendix D
   - Borrowing Requirement listed in Section 6
   - Borrowing Strategy outlined in Section 9
   - Annual Investment Strategy detailed in Section 10

2. Delegate to the City Treasurer, in consultation with the Executive Member for Finance & Human Resources, the power to pursue any restructuring, rescheduling or redemption opportunities available, including amendments to the

Treasury Management Strategy if the changes require it. Any changes required to the Strategy will be reported to members at the earliest opportunity.

Wards Affected: All

Contact Officers:

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the officers noted above.

- Treasury Management Strategy Report framework provided by Link Asset Services (Treasury Advisors)

1. Introduction

1.1 The Treasury Management Strategy Statement sets out the risk framework under which the Council's treasury management function will operate. By detailing the investment and debt instruments to be used during the year the Strategy highlights the risk appetite of the Authority and how those risks will be managed.

1.2. The Treasury Management Strategy Statement is linked to the Capital Strategy, in that both documents detail the risks that the Council face, but critically the Treasury Management Strategy Statement is focussed on the risks associated with the management of the Council's cash flow and debt, whereas the Capital Strategy looks at capital investment and expenditure decisions.

1.3. The capital budget contains significant priorities for the Council, such as the refurbishment of the Town Hall, which are to be funded from borrowing. This strategy details how decisions will be taken regarding new borrowing and that the over-arching principle is that the borrowing provides value for money for the Council in whatever form it takes. Capital investment decisions are made in line with the economic and regeneration objectives for the city and to support delivery of the agreed capital strategy.

1.4 For treasury management investments the Council holds security and liquidity as paramount. This strategy proposes the use of investment types aimed at ensuring that funds are kept secure and that the Council has access to funds when they are required.

1.5 The work of the Council's treasury management function is impacted by market conditions and there are significant economic changes, such as Britain leaving the European Union, which create uncertainty in the market. The strategy has been drafted to provide flexibility to manage the risks associated with uncertainties such as interest rate or liquidity challenges.

2. Statutory and other requirements

2.1. Background

Treasury management is defined by CIPFA as:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2.2. Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury

Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as section 10 of this report); the Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Department for Housing, Communities and Local Government (DHCLG) issued revised investment guidance which came into effect from the 1 April 2010. In 2017 the Department, now the Ministry of Housing Communities and Local Government (MHCLG) further updated its guidance on local government investments. CIPFA responded to these revisions by issuing an updated Code of Practice on Treasury Management and the Prudential Code in 2017. CIPFA have also issued Public Services Guidance Notes in 2018 to support the changes made to the Codes.

2.3. CIPFA requirements

The CIPFA Code of Practice on Treasury Management (Revised November 2009) was originally adopted by the Council on the 3 March 2010, having been approved by Executive on the 10 February 2010. The Code was revised in November 2011 and in December 2017. The revisions followed consultation with the public sector and were made in response to development of the localism agenda and a sustained period of public spending. This strategy has been prepared in accordance with the revised December 2017 Code.

The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

c) Receipt by the full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Council of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Council the delegated body is the Audit Committee.

f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Resource and Governance Scrutiny Committee.

The Council's adherence to the Prudential Code is monitored through the series of Prudential Indicators defined by CIPFA. These have recently been subject to revision following a consultation, and this strategy adheres to those revisions. Adherence to the CIPFA Prudential Code is a factor which informs the Council's investment policy. The legal status of the Treasury Management Code is derived in England and Wales from regulations issued under the Local Government Act 2003. This includes statutory guidance on Local Government investments issued under section 15(1) (a) of the Act.

2.4. **Treasury Management Strategy for 2019/20**

The suggested strategy for 2019/20 is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Link Asset Services.

The strategy covers:

Section 1: Introduction
Section 2: Statutory and other Requirements
Section 3: Treasury Limits and Prudential Indicators
Section 4: Impact of 2012 HRA reform
Section 5: Current Portfolio Position
Section 6: Borrowing Requirement
Section 7: Treasury Limits and Prudential Indicators for 2019/20 to 2021/22
Section 8: Prospects for Interest Rates
Section 9: Borrowing Strategy
Section 10: Annual Investment Strategy
Section 11: Scheme of Delegation
Section 12: Role of the Section 151 Officer
Section 13: Minimum Revenue Provision (MRP) Strategy
Section 14: Recommendations
Appendix A: Treasury Limits and Prudential Indicators for approval
Appendix B: MRP Strategy
Appendix C: Treasury Management Policy Statement
Appendix D: Treasury Management Scheme of Delegation
Appendix E: The Treasury Management Role of the Section 151 Officer
Appendix F: Economic Background – Link Asset Services
Appendix G: Prospects for Interest Rates
Appendix H: Glossary of Terms
Appendix I: Treasury Management Implications of HRA Reform

2.5. **Balanced Budget Requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional to capital expenditure; and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

3. Treasury Limits and Prudential Indicators

3.1. The Council must comply with appropriate legislation and have regard to the Prudential Code when setting its Treasury Management Policy and Strategy. Following the issue in 2017 of MHCLG revised guidance on local government investments CIPFA consulted with the public sector and revised the Prudential Code. The changes included:

- the opportunity for an Authority to identify its own prudential indicators to reflect local circumstances.
- cancellation of the requirement for an Authority to formally note that it has adopted the Code.
- extension of the responsibilities of the Treasurer in respect of the Capital Strategy and the investment of non-financial assets. See Appendix E.
- deletion of the Council Tax indicator. This indicator could be fundamentally misleading as it struggled to reflect how borrowing might be taken, or the impact of changes in market conditions.
- clarification that the Code covers all investments held primarily for financial returns. This implies there is no differentiation between investments held for treasury purposes and investments held for commercial purposes.
- withdrawal of the requirement to analyse interest rate exposure or credit risk.

Three existing Indicators were confirmed as being key:
the Authorised Limit (Affordable Borrowing Limit)
the Operational Boundary, and
Actual External Debt from the preceding year

3.2. It is a statutory duty under Section 3 of the Act and supporting regulations that the Council determines and keeps under review how much it can afford to borrow. This amount is termed the ‘Affordable Borrowing Limit’.
In England this Authorised Limit represents the legislative limit specified in the Act and is one of the key Prudential Indicators identified by the CIPFA Code.

3.3. The Council must have regard to the Prudential Code when setting the Authorised Limit which requires it to ensure that total capital investment remains within sustainable limits.

3.4. Whilst termed an Affordable Borrowing Limit, the capital plans incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.5. The full set of Treasury limits and Prudential Indicators recommended by the Code and used by the Council, together with their suggested levels for 2019/20 is noted in Appendix A of this report below.

3.6. It should be noted that the Treasury limits and Prudential Indicators in this report may be subject to change dependent on decisions taken on the Capital and Revenue budgets which are reported elsewhere on this agenda.

4. The Housing Revenue Account - Impact of 2012 HRA reform

4.1 The Local Government Finance and Housing Act 1989 requires Councils who own housing they rent out to tenants to separate all of the financial activities relating to the Council acting as landlord into a ring-fenced account known as the Housing Revenue Account (HRA). Due to the ring-fence it is illegal for the Council to subsidise any General Fund (GF) activity from its HRA and vice versa.

4.2 The Treasury Management Strategy for 2013/14 was the first to incorporate the split of the Council’s debt portfolio following the HRA debt settlement of March 2012 which ended the subsidy arrangement. Details of how the split was calculated and the corresponding effect on treasury management activities are at Appendix I.

4.3. The treasury position of the Council will continue to be monitored at a Council level alongside the separate positions for the GF and the HRA. The HRA is also limited in terms of the treasury activity it can undertake as any temporary borrowing or investing it requires or long-term borrowing will be through the GF. This ensures that the overall Council position is managed as effectively and efficiently as possible.

4.4. To reflect the fact that the HRA now has its own treasury position this report will mention where the HRA treasury strategy may be different to that of the GF. Where the Council strategy is mentioned this applies to both the GF and the HRA.

5. Current Portfolio Position

5.1. The forecast portfolio position for the end of the current financial year is shown below and assumes the novation of the loans relating to the Greater Manchester Housing Investment Fund provided by MHCLG to the Greater Manchester Combined Authority (GMCA) will complete before the end of the 2018/19 financial year. The City Council will retain some elements of the investments which were already committed at the time of the transfer and these loans will be retained until the investments end. The GMCA will support the cashflow of the Council to ensure that the arrangement is cash neutral for the Council. This is reflected in the short term borrowing position shown.

5.2 The forecast portfolio position below assumes that the related MHCLG loan no longer forms part of the Council's debt position and GMCA will provide short term borrowing to cover existing commitments under the Housing Investment Fund. It also reflects £150m of PWLB borrowing has been taken this financial year to support the Council's cash flow.

5.3 The Council's forecast treasury portfolio position at 31 March 2019 is:

Table 1		**Principal**			**Av Rate**
		GF £'m	HRA £'m	**Total £'m**	%
Long Term Borrowing					
	PWLB	150.0	0	**150.0**	2.45
	Market	338.0	62.2	**400.2**	4.50
	Stock	0.9	0	**0.9**	4.00
SALIX	Government	11.4	0	**11.4**	0.00
HCA	debt	8.4	0	**8.4**	0.00
		508.7	62.2	**570.9**	3.80
Short Term Borrowing		113.0	0	**113.0**	0.01
		113.0	0	**113.0**	
Gross debt		**621.7**	**62.2**	**683.9**	3.17
External Investments		0	0	**0**	0.00
Internal balances (GF/HRA)		34.5	(34.5)	**0**	0.00
Net debt		**656.2**	**27.7**	**683.9**	
Capital Financing Requirement				**1,488.5**	
Gross Debt				**683.9**	
Internal Borrowing				**804.6**	

5.3. The Capital Financing Requirement measures an Authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively it means capital expenditure incurred but not yet paid for.

5.4. The Capital Financing Requirement of the City Council excluding credit arrangements as at 31 March 2019 is forecast to be c.£1,488.5m. The difference between this and the actual gross debt of the Council is c.£804.6m which is the amount of funding that the Council has internally borrowed. This is a reflection of the treasury strategy where internal cash has been utilised to reduce the amount of borrowing required rather than holding this cash as investments. In the current environment where the rate of interest on investments is significantly lower than that on borrowing and there are substantial counterparty risks, this has been a prudent approach and has provided value for money for the Council. Internal cash refers to cash surpluses which arise from the timing of receipts and payments.

5.5. As part of the reform of the HRA, on the 28th March 2012 the then DHCLG repaid all of the Council's Public Works Loan Board (PWLB) debt which had been gradually reduced over recent years by various housing stock transfers. Subsequently the HRA debt portfolio consists almost exclusively of market debt, the majority of which are Lender Option Borrower Option (LOBO) loans which have long-term maturity dates. Whilst this provides some stability for the Council as LOBOs are unlikely to be called in the near future due to the current and forecast market environment, it does mean that when seeking to take new debt the Council should consider diversifying the portfolio, not least to ensure a wider range of maturity dates.

5.6. The portfolio at 31 March 2019 includes Council Stock with a value of £0.86m. This Stock debt is attributable to the irredeemable class of stock where stockholders have not taken up the Council's redemption offer made in 2017/18.

5.7. The portfolio above includes the funding from the GMCA for previous investments made by the City Council for the Housing Investment Fund. During the year repayments from the investments may be received and the Council will reduce the short term funding from the GMCA accordingly. Similarly if these loans require further advances the funding from the GMCA will increase.

6. Borrowing Requirement

6.1. The potential long-term borrowing requirements over the next three years are:

Table 2	2019/20	2020/21	2021/22
	£'m estimate	£'m estimate	£'m estimate
Planned Capital Expenditure funded by Borrowing	153.1	179.7	174.5
Change in Grants & Contributions	-5.1	48.8	2.6
Change in Capital Receipts	3.3	28.8	-0.7
Change in Reserves	16.1	32.7	19.6
MRP Provision	-24.8	-31.3	-37.0
Refinancing of maturing debt (GF)	2.8	2.2	4.7
Refinancing of maturing debt (HRA)	0.2	0	0.5
Estimated Borrowing Requirement	145.6	260.9	164.2
Funded by:			
GF	145.4	260.9	163.7
HRA	0.2	0	0.5

6.2. The borrowing detailed in Table 2 maintains the Council within the revised Government Debt Deal limit. The current Debt Deal expires in 2019/20 and it is not clear what will happen for the next Spending Review Period.

7. Prudential and Treasury Indicators for 2019/20 to 2021/22

7.1. Prudential and Treasury Indicators (as set out in Appendix A to this report) are relevant for the purposes of setting an integrated treasury management strategy.

8. Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives Link's central view:

Link Asset Services Bank Rate forecast for financial year ends (March)

- 2019: 0.75%
- 2020: 1.25%
- 2021: 1.50%

8.2 There is no certainty to these forecasts. The Bank of England increased Base Rate from 0.50% to 0.75% on 2nd August 2018. Base Rate had previously remained static at 0.50% since March 2009, albeit for a reduction in August 2016 to 0.25%. This was later reversed in November 2017 when the rate was reinstated to 0.50%. In November 2018 the Governor of the Bank of England predicted that future rate rises will remain "gradual", but indicated that there will be a need to raise the Rate to 1.5% over the next three years to keep inflation under control. In addition there was a suggestion that the next Rate change could be either up or down dependent on the outcome of the Brexit arrangements. A detailed view of the current economic background prepared by Link is at Appendix F to this report.

8.3 The Council seeks to maintain a portfolio of debt and investments that is a mix of fixed and variable interest rates. Whilst fixed interest rates give the Council certainty, there is also a risk that prevailing market rates change and there are then opportunities to either increase the rate of return on investments or reduce the rate of interest on debt which could not be taken if the whole portfolio was fixed.

8.4 The Council's treasury management investments are classed as variable as the Council invests short term to enable the cash flow to be managed. In terms of debt, the Council has a significant portfolio of fixed rate debt, but as noted above a significant element of this is LOBO debt which means that there are risks that the interest rate on that debt could change. The Council monitors this position, including the likely use of the Lender Options, and will make future borrowing decisions with a view to keeping the debt portfolio balanced between fixed and variable debt.

9. Borrowing Strategy

General Fund

9.1. The proposed Capital Budget, submitted to Executive in February and Council in March contains significant capital investment across the city. The scale of the investment means the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. The first tranche of external borrowing was taken from the PWLB in quarter 4 of 2018/19. Where possible, internal borrowing will remain the first option due to the interest savings generated.

9.2. The Council's borrowing strategy must utilise the annual provision it is required to make to reduce debt, in the form of its Minimum Revenue Provision (MRP). If MRP is not used to reduce external debt it is held as cash so the most efficient arrangement is for MRP to be used to reduce the new long term debt expected to be required. This ensures that MRP is utilised and does not accumulate as cash on the Balance Sheet. Alternatively MRP could be used to repay existing debt but this would be at considerable cost in the current interest rate environment.

9.3. In previous years this has not been an issue as the Council has had significant borrowing requirements year on year which have allowed it to utilise the MRP. However the borrowing requirement may fall in the long term so a prudent strategy is to seek to borrow in the medium term with maturities to match the estimated MRP that is generated in that period. This avoids an accumulation of cash on the Balance Sheet that would need to be invested at a potential net cost and investment risk to the Council.

9.4 Following the HRA debt settlement the Council's debt position is one of significant internal borrowing meaning cash backed reserves and provisions in the HRA are being used in lieu of external debt. The external debt held is predominantly long term in nature.

9.5 The Council will continue to use its reserves and provisions to maximise internal borrowing whilst seeking to rebalance the portfolio with more medium term debt when there is a need to externally borrow. This must be done with a strong focus on achieving value for money on interest costs and balancing the risks to the overall debt portfolio.

HRA

9.6 The Council's proposed capital budget for 2019/20 and beyond does not contain any requirement for the HRA to borrow. It is expected that proposals will be brought forward to build new homes that require funding via borrowing so it is likely the HRA will have a borrowing requirement in 2019/20. Further details can be found in the HRA Business Plan report elsewhere on the agenda. The level of borrowing affordable is restrained by the statutory requirement for the HRA Business Plan to avoid going into a deficit.

9.7 The impact of any required further long term borrowing on the Business Plan will be reviewed which will inform the borrowing options pursued. Any temporary borrowing required will be sought from the General Fund. This is discussed further in Appendix I.

9.8 Note, in the event that some of the current debt is required to be repaid, for example if one of the LOBO loans was called, the refinancing arrangements would need to be considered.

Borrowing Options

9.9 As stated above the Council's borrowing strategy will firstly utilise internal borrowing. However as the overall forecast is for long term borrowing rates to increase the short term advantage of internal and short term borrowing will be weighed against the potential cost if long term borrowing is delayed as rates for longer term loans are expected to increase.

9.10 New borrowing will be considered in the forms noted below. All options will be evaluated alongside their availability and which provides best value for money. The options below are not presented in a hierarchical order.

i Public Works Loan Board (PWLB)

PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which could spread debt maturities away from a concentration in longer dated debt and allow the Council to align maturities to MRP.

In the March 2012 Budget the Chancellor announced the availability of a PWLB 'Certainty Rate' for local authorities which could be accessed upon the submission of data around annual borrowing plans for individual authorities. The Council submitted its return in April 2018. The Certainty Rate allows a local authority to borrow from the PWLB at 0.20% below their published rates.

The Government has also introduced a PWLB Infrastructure Rate to be borrowed at 0.40% below their published standard rates. There is a bidding process to access this rate and preference given to projects displaying high value for money. There are two bidding rounds each year, one runs from 1st May to 31st July 2018 and the second is from 1st January to 31st March 2019.

These reductions, alongside the flexibility the PWLB provides in terms of loan structures and maturity dates together with the current lack of availability of market debt options, suggest that should long term borrowing be required PWLB borrowing might provide the best value for money.
The Link forecast for the PWLB Certainty Rate is as follows:

Table 3	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Mar 21
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.50%
5 yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.60%
10 yr PWLB rate	2.50%	2.60%	2.60%	2.70%	2.80%	3.00%
25 yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.40%
50 yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.20%

A more detailed Link forecast is included in Appendix G to this report.

ii European Investment Bank (EIB)

The EIB's rates for borrowing are generally favourable compared to PWLB although the margin of benefit has now reduced. Rates can be forward fixed for borrowing from the EIB and this option will be considered if the conditions can be met and it offers better value for money.
The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Council's overall pooled borrowing.

iii Third Party Loans

These are loans from third parties that are offered at lower than market rates, for example Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

iv Housing Investment Funding and the Homes and Communities Agency

Both HIF and HCA are MHCLG funding and only used in specific circumstances, see paragraphs 9.12-16 for further details.

v Inter-Local Authority advances

Both short and medium term loans are often available in the inter Local Authority market.

vi Market Loans

There are usually various offers available from the general market including LOBOs or forward starting loans. The Council will give consideration to forward fixing debt, whereby it agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts.

vii Local Authority Bond Agency

The UK Municipal Bonds Agency was established in June 2014 with the primary purpose of reducing local authority financing costs by:
- Issuing bonds in the capital markets and on-lending to councils.

- Lending between councils.
- Sourcing funding from 3rd party sources, and on-lending to councils.

Although the Agency's aim is to raise finance for Local Authorities by issuing municipal bonds to capital markets, at the time of writing the first bond has yet to be issued. The Council will continue to monitor the Agency's development and whether it can offer a competitive option for future borrowing.

9.11 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. The traditional market loans available tend to be Lender Option Borrower Option (LOBO) loans and they are not currently offered at competitive rates of interest. LOBOs provide the lender with future options to increase the interest rate whilst the local authority has the option to repay if the increase in the rate is unacceptable to them.

9.12 Following HRA reform the vast majority of the Council's existing debt portfolio consists of LOBOs and the Authority needs to consider diversifying its loan book to reduce the impact of any volatility that may cause these loans to be called. It should be noted that the Council's current LOBO loans are unlikely to be called in the medium term at current interest rates.

Homes and Communities Agency Funding

9.13 The Homes and Communities Agency (HCA) has made £31.8m funding available to the City Council and this was received during the three years 2015/16 to 2017/18. The funding is, in effect, a 'loan' of the HCA's receipts from the disposal of its land and property within Greater Manchester (GM) as agreed in the GM City Deal. The funds can be used to invest in any project which supports GM City Deal objectives. Some of the funds are passed on to other GM authorities for projects within their areas.

9.14 The funding from the HCA is held as an interest free loan until an investment approval is made. At this point the approved element of the loan becomes risk-based with the return to the HCA based on the performance of that investment. The location of the project depends on where the receipts originate from and whether the receipt is due to the sale of residential or commercial property. Proceeds from commercial property are not borough-specific, whereas proceeds from residential property are.

9.15 The funds received are to be repaid to the HCA in March 2022. No interest will be charged to MCC for the receipt of the funds. Should an investment made not be recovered, the loss is deducted from the amount due to the HCA. Conversely, should any profit be made by an investment these will be added to the amount due to the HCA.

Housing Investment Funding (HIF)

9.16 The Council has arranged with the Homes and Communities Agency to receive housing investment funding on behalf of Greater Manchester. The funds are treated as a loan to the Council in a similar manner to HCA funds as detailed in paragraphs 9.12-14. These monies are then be invested in housing related projects with any losses met by Government (up to 20%) or by guarantee from the ten Greater Manchester Local Authorities (including Manchester). All the Housing Investment Fund schemes are approved by the GMCA and the Council's role is to act as a host for the financial arrangements.

9.17 Total HIF funding of £300m has been agreed with the MHCLG of which £197.7m has been received to date. The majority of HCA and HIF funds are expected to transfer to the GMCA in quarter 4 2018/19 following the Authority being granted the statutory borrowing powers required. The element of the investment which was already committed at the time of the transfer is being retained by the Council until the investment completes.

Sensitivity of the forecast

9.18 In normal circumstances the main sensitivities are likely to be the two scenarios noted below. Council officers in conjunction with the treasury advisors will continually monitor the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- ***If it were felt that there was a significant risk of a sharp FALL in long and short term rates**,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation then long term borrowings will be postponed.
- ***If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast**,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates remain relatively cheap.

External v. Internal borrowing

9.19 The current borrowing position reflects the historic strong Balance Sheet of the Council as highlighted in Section 5. The policy remains to keep cash as low as possible and minimise temporary investments.

9.20 The next financial year is again expected to be one of historically low Bank Rate. This provides a continuation of the opportunity for local authorities to review their strategy of undertaking new external borrowing. At Appendix F there is an in depth analysis of economic conditions provided by Link Asset Services, the Council's independent treasury advisors.

9.21 Over the next three years, investment rates are expected to be significantly below long term borrowing rates. This would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt.

9.22 This will be weighed against the potential for incurring additional long term costs by delaying new external borrowing until later years when longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates whilst rates are favourable.

9.23 Against this background caution will be adopted within 2019/20 treasury operations. The City Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

9.24 From a statutory point of view a Local Authority has the power to invest for 'any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs.' The MHCLG takes an informal view that local authorities should not borrow purely to invest at a profit. This does not prevent the Council temporarily investing funds borrowed for the purpose of expenditure in the reasonable near future.

9.25 This Council will not borrow in advance of need to on lend. Any decision to borrow in advance in support of strategic and service delivery objectives will be in the context of achieving the best overall value for money, for example to minimise the risk of borrowing costs increasing in the future and that the Council can ensure the security of such funds. In determining whether borrowing is undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created and implications for future plans and budget have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

Forward Fixing

9.26 The Council will give consideration to forward fixing debt, whereby the Council agrees to borrow at a point in the future at a rate based on current implied market interest rate forecasts. There is a risk that the interest rates proposed would be higher than current rates it can be beneficial as it avoids the need to borrow in advance of need and suffer cost of carry. It may also represent a saving if rates were to rise in the future. Any decision to forward fix will be reviewed for value for money and will be reported to Members as part of the standard treasury management reporting.

Debt Rescheduling

9.27 It is likely that opportunities to reschedule debt in the 2019/20 financial year will be limited particularly as the Council has no existing PWLB loans other than those expected to be taken in the last quarter of 2018/19.

9.28 As short term borrowing rates will be considerably cheaper than longer term rates, there may be some opportunity to generate savings by switching from long term debt to short term debt. These savings will need to be considered in the light of the premiums incurred and the likely cost of refinancing those short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

9.29 The debt portfolio following HRA reform consists mainly of LOBOs, and the premia for rescheduling these make it unlikely there will be a cost effective opportunity to reschedule. The premia relates to the future interest payments associated with the loan and compensation for the lender for the buy-back of the interest rate options the loan has embedded in it.

9.30 The Council will continue to monitor the LOBO market and opportunities to reschedule, redeem or alter the profile of existing LOBO debt. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined above in this section;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility)

9.31 Any restructuring of LOBOs will only be progressed if it provides value for money and reduces the overall treasury risk the Council faces. The Council's Constitution delegates to the City Treasurer the authority to pursue any restructuring, rescheduling or redemption opportunities available.

9.32 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely. It is likely short term rates on investments will be lower than rates paid on current debt.

9.33 All rescheduling will be reported to the Executive as part of the normal treasury management activity. If rescheduling requires amendments to the Treasury Management Strategy the City Treasurer will be asked to approve them in accordance with her delegated powers and the changes will be reported to Members.

10. Annual Investment Strategy

General Fund

Introduction

10.1. The Council will have regard to the MHCLG’s Guidance on Local Government Investments (the Guidance) and the 2011 and 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council’s investment priorities are:
- the security of capital; and
- the liquidity of its investments.

10.2. The risk appetite of the Council is low in order to give priority to the security of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

10.3. The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. However the Council may provide loan finance funded from borrowing if this supports the achievement of the Council’s strategies and service objectives.

10.4. The Icelandic banks crisis and the financial difficulties faced by UK and international banks that followed have placed security of investments at the forefront of Treasury Management investment policy. Similarly the move in the local authority sector to commercial investment had led to a reinforcement of these principles under the revised Prudential Code.

10.5 The Council’s TMSS focusses solely on treasury management investments. CIPFA has revised the Prudential Code to strengthen disclosure requirements for investments which are commercial in nature, in that they are neither treasury or strategic capital investments. The Council does not hold any commercial investments and details of strategic capital investments can be found in the Capital Strategy and Budget Report to the Executive.

Changes to Credit Rating Methodology

10.6. Through much of the financial crisis the main rating agencies provided some institutions with a ratings ‘uplift’ due to implied levels of government backing should an institution fail. In response to the evolving regulatory regime and the declining probability of government support the rating agencies are removing these ‘uplifts’.

10.7. The changes do not reflect any changes in the underlying status of the institution or credit environment, merely the removal of the implied levels of sovereign support built into ratings during the financial crisis. The regulatory and economic environments now mean that financial institutions are much stronger and less prone to failure in a financial crisis.

10.8. The key change to the regulatory framework in respect of banks was introduction of the European Union's Banking Recovery and Resolution Directive (BRRD). In response to the banking crisis some governments used taxpayer funds to support banks. BRRD now requires ‘bail-in’ to be applied in such a scenario. In the UK this requires that after shareholders’ equity, depositors’ funds over c.£85k (linked to the Euro) will be used to support a bank at risk. The £85k threshold is not available to local authorities and all bank deposits are at risk of bail-in. This increases the risk to the Council of holding unsecured cash deposits with banks and building societies.

Investment Policy

10.9. As previously, the Council will not just utilise ratings as the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps'[1] and overlay that information on top of the credit ratings.

10.10. Investment in banks and building societies are now exposed to bail-in risk as described above and lower operational limits for these investments were adopted in 2016/17. This is apart from the limit with Barclays bank; Barclays is the Council's main banker and is the investment destination of last resort for the close of daily trading. These revised limits are operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2018/19 will be maintained in 2019/20.

10.11. The investment constraint brought by bail-in risk means the Council has sought to identify ways that it can broaden and diversify its basis for lending. During 2018/19 the Council decided to reduce its exposure by maintaining a lower level of bank deposits. This strategy saw a significant proportion of the Council's investments placed with the Government (via the DMO) or with other Local Authorities.

10.12 From October 2018, in line with the 2018/19 TMS, the Council has started to deposit in Money Market Funds (MMFs) to further diversify the basis for lending, using four MMFs which meet the Council's TMSS criteria. Although MMFs are not directly exposed to bail-in risk there could be a secondary exposure related to the extent that the individual Fund includes bank deposits within its portfolio of investments. Application of bail-in in this scenario would impact on the overall status of the Fund and it is likely that the Council would be able to withdraw from participation in the Fund in such a situation.

10.13 To December 2018 the majority of the investment portfolio was with the DMO and other Local Authorities. For liquidity purposes an average of £15m has been held in Bank Deposits and from October 2018 Money Market Funds deposits have averaged £20m. This highlights the relatively low credit risk that the Council takes when investing.

[1] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

10.14. For 2019/20 investment the Council will continue to consider trading in Treasury Bills, Certificates of Deposit and Covered Bonds. In addition to diversification each of these options offer the Council benefits which are noted in paragraphs 10.32-36 below. Treasury Bills, Certificates of Deposit and Covered Bonds require the Council to have specific custodian and broker facilities which have been opened. Officers are working to monitor these markets to prompt participation in the instruments when rates are favourable. Work is continuing to open further access points to markets and to identify opportunities for benefit which are new to the Council.

10.15. It should be noted that, whilst seeking to broaden the investment base officers will seek to limit the level of risk taken. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.

HRA

10.16. In order to maintain efficient, effective and economic treasury management for the Council as a whole, the HRA will only be able to invest with the General Fund. This is discussed further in Appendix I.

Specified and Non-Specified Investments

10.17. Investment instruments identified for use in the financial year are listed below and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

10.18. Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum 'high' rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs in this Section.

Table 4	**Minimum 'High' Credit Criteria**	**Use**
Term deposits – banks and building societies*	See Para 10.9.	In-house
Term deposits – other Local Authorities	High security. Only one or two local authorities credit-rated	In-house
Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house
Money Market Funds (MMFs)	AAA_M	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

* Banks & Building Societies
The Council will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 10.23. If this limit is breached, for example due to significant late receipts, the City Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments

and not balances held within the Council's bank accounts, including the general bank account.

Creditworthiness policy

10.19. The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard & Poor's. Link supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

10.20. The above are combined in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

10.21. The Council has regard to Link's approach to assessing creditworthiness when selecting counterparties as it uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

10.22. In summary the Council will approach assessment of creditworthiness by using the Link counterparty list and then applying its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of Credit Ratings, the Council will be advised of information in Credit Default Swap against the iTraxx benchmark[2] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

10.23. Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Limits

[2] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

10.24. In applying the creditworthiness policy the Council holds the security of investments as the key consideration and will only seek to make treasury investments with counterparties of high credit quality.

The financial investment limits of financial institutions will be linked to their short and long-term ratings (Fitch or equivalent) as follows:

Long Term	Amount
Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Council will only utilise those institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

UK Government (including the Debt Management Office)	£200 million
Greater Manchester Combined Authority	£200 million
Other Local Authorities	£20 million

In seeking to diversify he Council will utilise other investment types which are described in more detail below and ensure that the investment portfolio is mixed to help mitigate credit risk. The following limits will apply to each asset type:

Total Deposit	**Amount**
Local Authorities	£250 million
UK Government - Debt Management Office - Treasury Bills	£200 million
Money Market Funds	£60 million
Certificates of Deposit	£25 million
Covered Bonds	£25 million

10.25. It may be prudent to temporarily increase the limits shown above, as in the current economic environment it is increasingly difficult for officers to place funds. If this is the case officers will seek approval from the City Treasurer and any increase in the limits will be reported to Members through the normal treasury management reporting process. Any HCA funds invested with other local authorities will form part of the £20m limit noted above.

Country Limits

10.26. The introduction of bail-in arrangements means that the Council's exposure to bank and building society deposits should be limited and these deposits will only form part of a diversified investment portfolio to help mitigate the risk.

10.27. Previously the Council's treasury management strategies included investment limits to specific countries, such as those rated AAA. The introduction of bail-in arrangements suggests that less reliance can be placed on sovereign support for individual institutions and the country limits have been removed. The focus of credit rating evaluations will be on the individual banks, building societies and organisations.

Money Market Funds

10.28. The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impacted on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available and to provide flexibility the Council will use MMFs when appropriate as an alternative specified investment.

10.29. MMFs are investment instruments that invest in a variety of institutions therefore diversifying the investment risk. The funds are managed by a fund manager and have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK. MMFs also provide flexibility as investments and withdrawals can be made on a daily basis.

10.30. MMFs are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the Fund as well as the credit quality of those investments. The Council will only use MMFs where the institutions hold the highest AAA credit rating and those which are UK based.

10.31. As with all investments there is some risk with MMFs in terms of the capital value of the investment. European legislation has required existing and new MMFs to convert to a Low Volatility Net Asset Value (LVNAV) basis by January 2019. This basis allows movements in capital value, but there is a restriction that the deviation cannot be more than 20 basis points, e.g. on a deposit of £100 the Fund must ensure withdrawal proceeds are no greater than +/- 20p.

10.32. For international investments the Council requires that the countries concerned must possess AAA status if there is a direct investment in a sovereign state. This is not applicable to MMFs. Whilst MMFs invest outside the UK their investment risk is identified on the basis of the total Fund rather than the ratings of the individual components within it. Should a country (or institution) become a higher risk in a MMF portfolio the Fund's management will seek to realign the investment portfolio to maintain the MMF's overall credit rating.

Treasury Bills

10.33. Treasury Bills are marketable securities issued by the UK Government and counterparty and liquidity risk is relatively low although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

10.34. Weekly tenders are held for Treasury Bills so the Council could invest funds on a regular basis. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

10.35. There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required and to purchase them in the secondary market. In the majority of cases the Council will hold to maturity to avoid any potential capital loss from selling before maturity and will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

Certificates of Deposit

10.36. Certificates of Deposit are short dated marketable securities issued by financial institutions so the counterparty risk is low. The instruments have flexible maturity dates so it is possible to trade them in early although there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are subject to bail-in risk as they are given the same priority as fixed deposits if a bank was to default. The Council will only deal with Certificates of Deposit that are issued by banks and meet the credit criteria.

Covered Bonds

10.37. Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions' Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Council would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Liquidity

10.38. Based on cash flow forecasts, the level of cash balances in 2019/20 is estimated to range between £0m and £230m. The higher level can arise where for instance large Government grants are received or long term borrowing has recently been undertaken.

Investment Strategy to be followed in-house

10.39 Link's view of forecast Bank Rate is noted at Section 8. The current economic outlook is that the structure of market interest rates and government debt yields have several key treasury management implications:

- The Bank of England has adopted a more aggressive tone in its provision of guidance to financial markets. The Bank has indicated there will be a need to gradually raise the Bank Rate to 1.5% over the next three years to keep inflation under control.
- Link's view is that Bank Rate will continue at its current rate of 0.75% until June 2019 when a rise to 1.00% is predicted. Thereafter rises to 1.25% in

March 2020, 1.50% in December 2020 and to 1.75% in June 2021 are forecast.

- Forecasting as far ahead as 2021 is difficult as there are many potential economic factors which could impact on the UK economy. There are also political developments in the UK, (especially over the terms of Brexit), EU, US and beyond which could have a major impact on forecasts;

- Investment returns are likely to remain relatively low during 2019/20 and beyond;

- Growth in the Eurozone after several years of depression following the financial crisis started to improve from 2016 and now has substantial strength. However the European Central Bank is struggling to achieve its 2% inflation target and therefore rates will possibly not start to rise until 2019.

There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10.40. The Council will avoid locking into longer term deals while investment rates are at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Council.

10.41. For 2019/20 it is suggested the Council should target an investment return of 0.50% on investments placed during the financial year. For cash flow generated balances the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year Investment Report

10.42. At the end of the financial year, the Council will receive a report on investment activity as part of the Annual Treasury Report.

Policy on the use of External Service Providers

10.43. The Council uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

10.44. The Council recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor’s appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

11. Scheme of Delegation

11.1 Appendix D describes the responsibilities of Member groups and officers in relation to treasury management.

12. Role of the Section 151 Officer

12.1 Appendix E notes the definition of the role of the City Treasurer in relation to treasury management.

13. Minimum Revenue Provision (MRP) Strategy

13.1 Appendix B contains the Council's policy for spreading capital expenditure charges to revenue through the annual MRP charge.

14. Recommendations

14.1 Please see page 1 of the report for the list of recommendations.

Appendix A

Treasury Limits and Prudential Indicators for approval

Please note last years approved figures are shown in brackets.

Treasury Management Indicators	2019-20		2020-21		2021-22
	£m		£m		£m
Authorised Limit - external debt					
Borrowing	1,351.4	(1,672.7)	1,412.7	(1,684.5)	1,412.9
Other long term liabilities	170.0	(216.0)	170.0	(216.0)	170.0
TOTAL	1,521.4	(1,888.7)	1,582.7	(1,900.5)	1,582.9
Operational Boundary - external debt					
Borrowing	940.8	(1,381.4)	1,151.7	(1,435.0)	1,275.0
Other long term liabilities	170.0	(216.0)	170.0	(216.0)	170.0
TOTAL	1,110.8	(1,597.4)	1,321.7	(1,651.0)	1,445.0
Actual external debt	716.5	(1,192.0)	977.4	(1,259.6)	1,141.5
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Capital Expenditure					
Non - HRA	475.5	(455.5)	370.3	(160.1)	207.4
HRA	30.1	(41.9)	48.7	(44.3)	36.6
TOTAL	505.6	(497.4)	419.0	(204.4)	244.0
Capital Financing Requirement (as at 31 March)					
Non – HRA	1,331.9	(1,664.4)	1,477.1	(1,730.5)	1,611.1
HRA	298.1	(298.1)	299.2	(299.3)	300.0
TOTAL	1,630.0	(1,962.5)	1,776.3	(2,029.8)	1,911.1

Maturity structure of borrowing during 2019-20	Upper Limit		Lower limit	
under 12 months	80%	(70%)	0%	(0%)
12 months and within 24 months	70%	(100%)	0%	(0%)
24 months and within 5 years	50%	(80%)	0%	(0%)
5 years and within 10 years	50%	(70%)	0%	(0%)
10 years and above	80%	(80%)	40%	(0%)
Has the Authority adopted the CIPFA Treasury Management Code?				Yes

The status of the indicators will be included in Treasury Management reporting during 2019/20. They will also be included in the Council's Global Revenue Budget monitoring.

Definitions and Purpose of the Treasury Management Indicators noted above (Indicators are as recommended by the CIPFA Prudential Code last revised in 2017)

Authorised Limit - external debt

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Authorised Limit.

Operational Boundary - external debt

The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the Authority's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate. Thus, both the Operational Boundary and the Authorised Limit will be based on the authority's plans. The authority will need to assure itself that these plans are affordable and prudent. The Authorised Limit will in addition need to provide headroom over and above the Operational Boundary sufficient for example for unusual cash movements.

Actual external debt

After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the local authority's Balance Sheet.

The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time. Actual debt during the year can be compared.

Upper limit for total principal sums invested for over 364 days

The authority will set an upper limit for each forward financial year period for the maturing of investments made for a period longer than 364 days. This indicator is referred to as the prudential limit for Principal Sums Invested for periods longer than 364 days.

The purpose of this indicator is so the authority can contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

Maturity structure of new borrowing

The authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These indicators are referred to as the Upper and Lower limits respectively for the Maturity Structure of Borrowing.

Local Prudential Indicators

The Council has not yet introduced Local Prudential Indicators to reflect local circumstances, but will review on a regular basis the need for these in the future.

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Appendix B

Minimum Revenue Provision Strategy

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2011/12 and has assessed its MRP for 2019/20 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP).

MHCLG Regulations require full Council to approve an MRP Statement, in advance of each year. If the Council wishes to amend its policy during the year this would need to be approved by full Council. A variety of options are available to councils to replace the previous Regulations, so long as there is a prudent provision. The options are:

- ***Option 1:*** Regulatory Method – can only be applied to capital expenditure incurred prior to April 2008 or Supported Capital Expenditure. This is calculated as 4% of the non-housing CFR at the end of the preceding financial year, less some transitional factors relating to the movement to the new Prudential Code in 2003.
- ***Option 2:*** CFR Method – a provision equal to 4% of the non-housing CFR at the end of the preceding financial year.
- ***Option 3:*** Asset Life Method – MRP is calculated based on the life of the asset, on either an equal instalment or an annuity basis.
- ***Option 4:*** Depreciation Method – MRP is calculated in accordance with the depreciation accounting required for the asset.

Options 1 and 2 may be used only for supported expenditure, which is capital expenditure for which the Council has been notified by Government that the costs of that expenditure will be taken into account in the calculation of Government funding due to the Council.

It is important to note that the Council can deviate from these options provided that the approach taken ensures that there is a prudent provision. The Council has historically followed option 1 for supported expenditure based on the level of support provided by Government through Revenue Support Grant (RSG).

The assets created or acquired under Supported Capital Expenditure predominantly had long asset lives of c. 50 years, such as land or buildings, and an MRP of 4% suggests a significantly shorter asset life. As the level of notional RSG the Council receives has reduced in recent years, it was considered prudent to review the approach to MRP on supported borrowing to reflect the Government support received.

It was therefore agreed that from 2017/18 a provision of 2% of the non-housing CFR as at the end of the preceding financial year is to be made. This is in line with many other local authorities who have reviewed the basis for their MRP and have applied similarly revised policies.

It is the Council's policy that MRP relating to an asset will start to be incurred in the year after the capital expenditure on the asset is incurred or, in the case of new assets, in the year following the asset coming into use, in accordance with MHCLG's guidance.

The Council recognises that there are different categories of capital expenditure, for which it will incur MRP as follows:

- For non HRA Supported Capital Expenditure: MRP policy will be charged at a rate of 2% on a similar basis to option 1 of the guidance (the regulatory method) but at a lower rate, better reflecting the asset lives of the assets funded through Supported Borrowing.

- For non HRA unsupported capital expenditure incurred the MRP policy will be:

- Asset Life Method – MRP will be based on a straight line basis or annuity method so linking the MRP to the future flow of benefits from the asset, dependant on the nature of the capital expenditure, in accordance with option 3 of the guidance.

- If the expenditure is capital by virtue of a Ministerial direction, has been capitalised under a Capitalisation Directive, or does not create a council asset, MRP will be provided in accordance with option 3 of the guidance with asset lives calculated as per the table below:

Expenditure type	**Maximum period over which MRP to be made**
Expenditure capitalised by virtue of a direction under s16 (2) (b).	20 years.
Regulation 25(1) (a). Expenditure on computer programs.	Same period as for computer hardware.
Regulation 25(1) (b). Loans and grants towards capital expenditure by third parties.	The estimated life of the assets in relation to which the third party expenditure is incurred.
Regulation 25(1) (c). Repayment of grants and loans for capital expenditure.	25 years or the period of the loan if longer.
Regulation 25(1) (d). Acquisition of share or loan capital.	20 years, or the estimated life of the asset acquired.
Regulation 25(1) (e). Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
Regulation 25(1) (ea). Expenditure on assets for use by others.	The estimated life of the assets.

Regulation 25(1) (f). Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

- For PFI service concessions and some lessee interests: Following the move to International Accounting Standards arrangements under private finance initiatives (PFIs) service concessions and some lessee interests (including embedded leases) are accounted for on the Council's Balance Sheet. Where this occurs, a part of the contract charge or rent payable will be taken to reduce the Balance Sheet liability rather than being charged as revenue expenditure. The MRP element of these schemes will be the amount of contract charge or rental payment charged against the Balance Sheet liability. This approach will produce an MRP charge comparable to that under option 3 in that it will run over the life of the lease or PFI scheme.

In some exceptional cases, the Council will deviate from the policy laid out above provided such exceptions remain prudent. Any exceptions are listed below:

- Where capital expenditure is incurred through providing loans to organisations, and where those loans are indemnified or have financial guarantees protecting against loss, no MRP will be charged in relation to the capital expenditure. Similarly, loans given by the Council where any losses incurred on the investment will impact solely on a third party, such as those provided under the City Deal arrangement with the HCA, will not require an MRP charge.

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Appendix C

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
   The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Council's service objectives.

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Appendix D

Treasury Management Scheme of Delegation

i **Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy

ii **Responsible body – Audit Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment

iii **Body with responsibility for scrutiny** - Resource and Governance Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body

iv **City Treasurer**

- delivery of the function

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Appendix E

The Treasury Management role of the Section 151 Officer

The S151 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

The points noted above reflect the specific responsibilities of the S151 Officer prior to the 2017 CIPFA Treasury Management Code revisions. The CIPFA Prudential Code revision which followed the MHCLG revised guidance on local government investments represents a major extension of the functions of the S151 Officer role, especially in respect of non-financial investments which CIPFA define as being part of treasury management.
The additional functions of the S151 Officer role are:

- preparation of a capital strategy with a long term timeframe to include capital expenditure, capital financing, non-financial investments and treasury management

- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

  - Risk management including investment and risk management criteria for any material non-treasury investment portfolios;

  - Performance measurement and management including methodology and criteria for assessing the performance and success of non-treasury investments;

  - Decision making, governance and organisation including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

  - Reporting and management information including where and how often monitoring reports are taken;

  - Training and qualifications including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Appendix F

Economic Background as at January 2019 – Link Asset Services

GLOBAL OUTLOOK

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets.

In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets.

It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak.

The potential for central banks to get this timing and strength of action wrong are now key risks. At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.
The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK

The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit.

While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the labour market figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.1% in November, however, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019.

The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone

Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan

Has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging Countries

Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis, possibly in Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by delaying the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some European banks. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- Other minority Eurozone governments. Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.

- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.

- Further increases in interest rates in the US could spark a sudden flight of investment funds from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- Dec 2018 vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19 UK parliamentary recess
- 14.1.19 vote in Parliament on a ‘no deal’ scenario
- By 29.3.19 second vote in UK parliament if first vote rejects the deal
- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 UK leaves the EU, (or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament rejects the deal and no deal departure?)
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

  On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

Prospects for Interest Rates

The data below shows a variety of forecasts published by a number of institutions. They include those of Link and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers' own views. Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%					
5yr PWLB rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%					
10yr PWLB rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%					
25yr PWLB rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	348.00%	3.43%	3.38%					
50yr PWLB rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%					

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Appendix H

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty - one of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market -The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee - the independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more then one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.
A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

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Appendix I

Treasury Management Implications of HRA Reform

As discussed in Section 3 of the report, the reform of the HRA finance system has consequences for the treasury management of the Council. As part of the reform, the HRA's debt portfolio needs to be separately identifiable to that of the General Fund, and the HRA will hold some autonomy over the management of its debt portfolio. However, in order to ensure that the treasury management function of the Council remains effective and provides value for money, and given that the Section 151 officer for both the General Fund and the HRA is the Treasurer, the HRA's treasury portfolio must be run in the context of the overall Council portfolio.

This appendix seeks to explain how the debt portfolio of the Council has been split between the General Fund and the HRA, and how the HRA treasury position will be managed going forward.

The Portfolio Split

One of the principles behind the reform of HRA finance was to provide some level of treasury autonomy for the HRA, separating its debt from the Council's so that its treasury position could be managed separately. To achieve this, the debt portfolio was to be split at the point that the debt settlement was made.

On the 28 March 2012, the Council received c. £294m which was to be used to reduce the debt held by the Council. The table below shows the Council's treasury portfolio before and after the settlement:

	Pre reform		Post reform
	£'000		*£'000*
PWLB	199,966		0
Market	549,640		480,215
Stock	8,159		8,159
Gross Debt	**757,765**		**488,374**
Deposits	-17,954		-42,839
Net Debt	**739,811**		**445,535**

At this point, the debt was to be split according to the relative capital financing requirements (CFRs) of both the General Fund and the HRA. The cash remainder of the settlement could not be used to redeem further market debt so, to ensure that the HRA CFR fell by the full level of the settlement, a notional transaction took place. An amount of debt equivalent to the cash remainder was transferred from the HRA to the General Fund, alongside the cash. This had a neutral effect on the General Fund's net debt.

The table below shows the CFRs before and after the debt settlement, with the HRA CFR falling by the settlement:

CFRs	Pre reform		Post reform	% of total
	£'000		*£'000*	
General Fund	675,454		675,454	84.47%
HRA	418,463		124,187	15.53%
Total	**1,093,917**		**799,641**	**100.00%**
		Of which financed:	*488,374*	
		Of which unfinanced:	*311,267*	

As can be seen from the tables below, the debt was to split in a ratio of 84.47:15.53 between the General Fund and the HRA, including the unfinanced CFR element. This is the level of internal borrowing undertaken in lieu of external borrowing, through the use of cash balances to fund expenditure rather than external borrowing. It was decided, for administrative reasons, that all of the Council's remaining stock debt should be held by the General Fund, which increased the relative level of unfinanced CFR held by the HRA.

The final split of the debt portfolio is shown in the table below:

	General Fund	HRA	Total
	£'000	*£'000*	*£'000*
Market	405,636	74,579	480,215
% of total market	*84.47%*	*15.53%*	
Stock	8,159	0	8,159
% of stock	*100.00%*	*0.00%*	
Total Loans	**413,795**	**74,579**	**488,374**
% of total loans	*84.73%*	*15.27%*	
Unfinanced CFR	261,659	49,608	311,267
% of unfinanced CFR	*84.06%*	*15.94%*	
Total CFR	**675,454**	**124,187**	**799,641**
% of total CFR	*84.47%*	*15.53%*	

Future HRA borrowing

Following the split of the portfolio, the HRA can make borrowing decisions according to the needs of their business plan, provided those decisions are aligned with their treasury strategy and are agreed by the Section 151 officer. The amounts and maturity periods of any future loans will be determined by the HRA, in conjunction with the Treasury Management team and the City Treasurer. Any future borrowing made by the Council will be for either the General Fund or the HRA and not for the Council in general.

Use of Temporary Cash Balances and Temporary Borrowing

Although the HRA's treasury position is now independent of the General Fund, both are managed in the name of the Council as a whole. As such, the day to day treasury position of the Council, whilst having regard to the impact on the HRA and the General Fund, will be run on a Council basis – this simplifies the risk management of the treasury position, and should help to ensure that the treasury function is providing value for money.

To achieve this, the General Fund will deposit and temporarily borrow externally, but the HRA will only be able to deposit with the General Fund and, should it be required, will only be able to access temporary borrowing through the General Fund. In order to ensure that this is fair, interest rates will be applied to any such internal transfers, as summarised below:

- If the General Fund has temporary investments, HRA investments with the General Fund will earn – ***average portfolio temporary investment rate***

- If the General Fund does not have temporary investments, HRA investments with the General Fund will earn – ***7-day LIBID***

- If the General Fund has temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***average portfolio temporary borrowing rate***

- If the General fund does not have temporary borrowing, HRA temporary borrowing from the General Fund will be charged – ***7-day LIBOR***

The market rates to be used (7-day LIBID and LIBOR) are the benchmark rates used by the Council for investments and temporary borrowing.

Future Reporting

The intention is to continue to report to Members the overall treasury position of the Council, including both the General Fund and the HRA. Separate reports will be provided on the General Fund and the HRA, when required.

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